

Kentucky Agricultural Development Board

Meeting Minutes

January 17 & 18, 2002

The Kentucky Agricultural Development Board met on Thursday, January 17, 1:00PM – 5:00PM and Friday, January 18, 9:00AM – 5:00PM in the conference room of the Kentucky Correctional Industries building.

January 17, 2002:

Commissioner Billy Ray Smith, Vice Chair, called the meeting to order, and the secretary called the roll.

Members Present on January 17, 2002:

Commissioner Billy Ray Smith, Vice Chairman; John-Mark Hack, Executive Director; Daniel Case; Larry Clay; Susan Harkins; Wayne Hunt; Sam Lawson; Dean Scott Smith; Sam Moore; Eddie Sellers; and Smith Mitchell designee for Secretary Gene Strong.

Members Absent on January 17, 2002:

Governor Paul E. Patton; Vickie Yates Brown; Seth Conner; Willa Poynter; and Mike Slaughter.

Others Present on January 17, 2002:

Hal Stopfel, Creative Public Relations; and Steve Coleman, Division of Conservation.

Staff Present on January 17, 2002:

David Bratcher; Penny Cline; Gordon Duke; DeVon Hankins; Jeff Harper; Rhodes Johnston; Kara Keeton; Bill McCloskey; Chauncey Morris; Joel Neaveill; Lisa Thomas; Kim Tompkins; Angela Utterback; and Stephen Yates.

Notification of Media:

Commissioner Smith received confirmation from John-Mark Hack that a media release regarding the Agricultural Development Board (ADB) meeting was sent.

Long Term Plan For Agricultural and Rural Development:

Commissioner Smith advised board members that the board would devote the afternoon of the 17th and the morning of the 18th working toward finalization of the Long-

Term Plan. On the morning of the 18th, Board members could expect to hear testimony from members of the Community Farm Alliance and the Kentucky Cattlemen's Association. The official business meeting of the Agricultural Development Board would begin at 1:00PM on January 18th.

Board members spent the afternoon of the January 17th and the morning of the January 18th discussing and amending the Long-Term Plan.

Following is the document that Board members used as a working draft:

Creating Rural Prosperity: Kentucky's Long-Term Comprehensive Plan for Agricultural Development

This report is the result of a year-long dialogue on how to maintain the economy of rural Kentucky while adapting to structural changes in the tobacco market, until 2000 the largest agricultural market in the Commonwealth. It is more a first step than the last word toward a blueprint for the future of Kentucky agriculture.

The aim of this plan is to preserve and enhance the social fabric of rural Kentucky while building a sustainable economic base rooted in local communities and maintaining environmental integrity.

The Agricultural Development Board (ADB) and Governor's Office of Agricultural Policy have tried to be open and inclusive. Everyone's input was sought, everyone who spoke was heard. Councils in each of Kentucky's counties submitted agricultural development plans. Regional and statewide meetings were held. This report is a distillation of that dialogue with suggestions for the scale and direction of Kentucky agriculture.

Governor Paul Patton and the legislators supporting House Bill 611 initiated this dialogue with the appropriation of money awarded the state in settlement of its lawsuit demanding recompense for tax dollars spent treating tobacco induced diseases. The infusion of more than \$120 million for the development of crops and markets to fill the void left by tobacco's contraction spurred this dialogue with matching cash for those with agriculture based business plans, projects or ideas.

To date most dollars in agriculture have been spent to bolster production. In order to build a sustainable agricultural system we must begin to organize and construct markets for that production. These market systems should include county seat farmers markets, regional markets to pack wholesale produce, certified kitchens and labeling machines to process local food items, and urban markets in Louisville and Northern Kentucky to showcase our best agricultural products.

The Kentucky Department of Agriculture should initiate an agricultural product certification program as a prerequisite for access to state funded markets such as prisons and parks. This certificate should include a barcode listing point of origin and processor in order to qualify for national and international commerce.

The State Health Department's Environmental Health Management Information System database should be expanded to include USDA inspected meat and poultry processing establishments. This database should be integrated with the Kentucky Department of Agriculture database and enhanced to include an inventory of state certified agricultural products and direct sale capability. These products would then be eligible for state contracts and the producers would be linked to state, national and world markets.

Commonwealth Agriculture: Vibrant Economy, Thriving Communities, A Healthy Environment

Kentucky is a uniquely rural state. Our geology and geography have until now enforced a scale of agriculture and development that fostered numerous small communities. We have 120 counties – each county seat a theoretical day's ride from the next. We have more farms than any state east of the Mississippi River. Thanks to the cash crop tobacco our rural economy has been maintained. Our farm products have a history.

Our cash crop is shrinking. The production of tobacco is being concentrated in fewer and stronger hands. The thousands of small-scale producers that knit the rural fabric of our Commonwealth are in need of replacement income. Any replacement enterprises should fit within the scale of the tobacco economy, use the existing agricultural land base, and provide a comparable income to tobacco.

More than 50 percent of Kentucky farmers are part-time farmers. Farming accounts for less than 20 percent of the income of these farmers. Any plan for the long term prosperity of rural Kentucky should make provisions for off-farm employment.

The Commonwealth has been blessed with both the political will and the financial means to redesign its rural economy. The preservation of our rural landscapes can be a valuable asset in preserving the social fabric on which rural health depends.

This plan seeks to adhere to three principles of sustainable development: Adding value to local agricultural products, exploiting market niches for pure and wholesome foods and promoting the rural landscape of Kentucky as an asset.

Retaining the present scale and individual ownership of Kentucky agriculture by preserving working farms on Commonwealth farmland preserves our rural towns and communities. Minimizing the burdens on natural resources and rewarding good land stewards with a decent living will enhance the Kentucky environment.

There are three distinct rural ecosystems in Kentucky – eastern, central and western. The state's long-term plan for agriculture should reflect these regional differences and provide solutions tailored to the local environment. The emphasis in each area is not meant to proscribe agricultural activity. There are tobacco farmers with 100,000 pounds of base in Eastern Kentucky. Western Kentucky has horses and tobacco. There are large scale Central Kentucky grain farmers. What the plan attempts to identify are areas of concentration within each region.

The Daniel Boone National Forest plus the adjacent southern counties marks a rough demarcation line between East and Central Kentucky. Western Kentucky begins west of Interstate 65. The east is comprised of the weathered western slope of the Appalachian Mountains.

The East: Timber, Tech Support, Tourism, and Other Opportunities

Timber

The western Appalachians contain a significant hardwood reserve. More than ninety percent of this forest reserve is privately owned. Few of these owners actively manage their forests. Logging methods have little regard for the integrity of forest ecosystems or the health of waterways. Most of the trees are exported from Kentucky as logs.

Kentucky timber competes in a global market. To capture value in this market we must recognize the worth of our hardwoods, improve our management of this asset, and improve our processing infrastructure.

Our woodlands are under valued and neglected. The Kentucky Office of Geographic Information has been awarded a \$1.3 million NASA grant to map the state's resources. State foresters should undertake a county by county inventory using this digital map. This information should be catalogued in a state database.

Valuable symbiotic crops such as ginseng, herbs and mushrooms provide a reward for good stewardship and should be encouraged. Funds should be made available for woodlot demonstration projects and to develop markets for these symbiotic crops.

The Phase 1 silviculture program should be strengthened. A teaching model should be included in woodlands education curricula to demonstrate the feasibility of sustainable logging, and the economic benefits of protecting and encouraging the byproducts of good woodlot management.

Kentucky has more than 20 kinds of edible wild mushroom. Shiitake and Morels grow well in our woodlands and can raise the harvest value to as much as \$2000 per acre. New inoculants minimize the amount of labor needed to harvest a mushroom crop. A state data base would connect restaurants and wholesalers with Kentucky mushroom producers.

Kentucky is a leading supplier of wild ginseng. Mature ginseng can bring \$400 per pound. The introduction of a market for virtually wild ginseng could provide a vehicle for establishing an internet auction system and setting industry standards. Efforts to promote and create a transparent market for virtually wild ginseng should be encouraged.

There are excellent furniture craftsmen in the area. A furniture factory using craft association designs to manufacture Kentucky reproductions advertised for sale in literary and architectural journals could be the foundation of a high-end furniture industry. The Economic Development Cabinet and the Kentucky Department of Agriculture should continue to explore the market for this and other large scale craft production.

Many tobacco barns contain valuable timbers. A market for architectural timbers should be developed using this asset.

Livestock, Vegetables and Other Opportunities

In the livestock industry, efforts are underway to provide market venues for pre-conditioned feeder cattle and the area's growing goat herds. ADB programs provide cost share dollars to upgrade herd genetics, build handling facilities and improve forage management. Eastern Kentucky initiatives like the Heifer Development Project complement efforts in other parts of the state to improve market opportunities for all types of livestock.

Cumberland Farm Products, a strong vegetable cooperative, is the heart of East Kentucky vegetable production. The cooperative has been awarded ADB grants for expansion. Diversification grants are available to new vegetable growers. The cooperatives should actively recruit new members as a condition of this funding.

The South East Coal Company store at Seco has been converted into a winery, music venue and bed and breakfast. Eastern Kentucky has good soils and growing conditions for wine grapes. The Equus Run Winery is recruiting growers in Eastern Kentucky.

There is a ready demand for blackberries, strawberries and raspberries. Kentucky regional certified kitchens will let farmers convert these and other fruit and vegetable crops into value-added farm products. After KDA certification, these products could be available for sale on Kentucky Virtual.com and included in a state database of agricultural products.

Tourism

The trend toward healthier living is illustrated by the growing amounts of money spent on health and sport. As people live longer they are more concerned about health. A recreational infrastructure that makes use of Kentucky's rural landscape can attract both tourists and retirees. The Commonwealth has an extensive system of abandoned railroad rights of way. Rails to Trails projects have been initiated in Lexington and Mt. Sterling. These projects are part of a national movement to re-develop these abandoned rights of way into hiking, cycling and horseback riding trails. The 34 mile Virginia Creeper Trail begins just over the border from Whitesburg in Wise County, Virginia. This trail connects to the Appalachian Trail which runs from Georgia to Maine. There is an extensive trail system including the John Muir Trail in the Daniel Boone Forest. The Mississippi River Trail runs through western Kentucky. West Virginia and North Carolina are developing rail to trail systems. The 2000 Legislature passed HB 221 which recognizes the benefits of and provides a legal framework for a state trail system.

A costs/benefits study of a state system of rail to trails to connect the major national trails in the state should be undertaken. State funding should be made available to develop Kentucky trails. Such a trail system could provide the infrastructure to support rural businesses including outfitters, tour agencies, tour guides, livery stables, bed and breakfasts, restaurants, bicycle shops and produce stands. According to the Rails to Trails Council there are 11,000 miles of trails in the U.S. The trail systems of England and Ireland are examples of the economic potential of walking, cycling and horseback riding tourism.

Information Technology: Knowledge-Based Small Farm Income Supplement

Many farmers or their spouses work off the farm to secure health insurance and extra income.

For example, tech support, the person who answers questions about your new computer, provides jobs in East Kentucky. This is entry level information technology. IT is non-polluting. The wages are adequate and companies offer health insurance. These companies can provide entry level knowledge worker positions, farm family health insurance and the supplemental income to help keep rural communities intact. A coordinated effort with the Economic Development Cabinet is needed to find other non-polluting businesses that can supplement farm incomes.

Knowledge workers are the key players in the emerging information age economy. Knowledge workers have two basic needs; formal education to fit them to knowledge work and continuing education to keep that knowledge up to date. Much of continuing education can now be delivered electronically. A radiologist or critical care nurse can practice his craft in any properly equipped facility. A Programmer may need only a fast internet connection to do her work. Sophisticated knowledge industries in the mid-twenty first century will likely be able to locate wherever they can find and keep the knowledge workers necessary to run their operations.

Kentucky is making a substantial investment in education. A comparable effort to preserve the rural landscape and human economic scale of the Commonwealth will provide another valuable recruiting tool for knowledge industries.

Central Kentucky: Tobacco, Cattle, Vegetables and Horses

Horses

Horses are the premier agricultural product of the Commonwealth. The home of fine Thoroughbreds is an image projected by Kentucky to the rest of the world. The national and international horse operations in Central Kentucky support a large and profitable industry that includes, veterinarians, farriers, feed dealers, trainers, grooms and others. The state should remain sensitive to the needs of the horse industry.

Pleasure horse numbers are growing. There are more Tennessee Walking Horses and Quarter Horses in Kentucky than Thoroughbreds. The development of county hay markets should be encouraged. A Rails-to-Trails initiative would boost the state's horse industry by opening new markets.

Tobacco

Central Kentucky is the Commonwealth's Burley Belt. Farmers in the Licking River Valley, the Bluegrass plateau and Barren River Basin will continue to grow the lion's share of Kentucky tobacco. The burley infrastructure is well developed in these areas.

The burley tobacco marketing system is changing.

The Phillip Morris [subsidiary of the Altria] Corporation is leading an effort to institute a system of direct contracting. By insisting on its own graders, Phillip Morris may assure the end of federal price supports and quota control for tobacco. RJ Reynolds and British American Tobacco have been willing to use USDA graders at their buying stations. Farmers will have a referendum in 2002 on the issue of USDA grading.

Regardless of the outcome of this vote, the state should work with the Burley Tobacco Cooperative to see that the tobacco market system is fair and open and protects the economic interests of Kentucky farmers.

Hundreds of millions of dollars have been provided to tobacco quota holders and growers since the establishment of the National Tobacco Growers Settlement Trust (Phase II). Since December 1999, federal payments through the Tobacco Loss Assistance Program and annual payments from the Growers Settlement Trust will have provided by December 2001 over

\$650 million in direct, unrestricted cash payments exempt from state income tax. Farmers are urged to use this windfall to match Phase 1 money available to strengthen local agricultural enterprises.

Forages & Hay

The most direct route to improving animal performance is by improving forage management. Our pastures are plagued by a monoculture of Kentucky 31 fescue. Extension surveys estimate 8 million acres of fescue in the state.

The endophyte associated with Kentucky 31 fescue protects the plant at the expense of the animal. Eating endophyte-infected fescue raises cattle body temperature in the summer and causes reproductive problems in both cattle and horses, according to University of Kentucky Agronomists. When cattle are allowed unrestricted access to pasture they tend to select more palatable species such as clovers and other cool season grasses.

Innovative farmers have demonstrated that a rotational grazing regimen, one that mimics the natural movement of grazing herds to fresh pastures, encourages a healthy mixed sward in pastures and increases weight gain in all forms of grazing livestock.

Rotational grazing technologies should be included in farm demonstration projects throughout the state.

Less than 15 percent of the hay used in the horse industry is from Kentucky, according to the Kentucky Department of Agriculture. The horse industry demands hay that has been properly cured when a single moldy wet spot can result in a large vet bill or worse. Investments in hay drying equipment could pay significant dividends for Kentucky hay farmers. Efforts to create state certified hay markets should be renewed.

Feeder Cattle

Kentucky is the largest feeder cattle producer east of the Mississippi River. Due to favorable weather, soils, topography and assuming the proper management of our forage base, Kentucky's feeder cattle production cost could be among the lowest in the U.S.

Kentucky is participating in the Five State Beef Initiative (FSBI). This system is designed to create an information-driven beef supply chain based on the electronic identification of each animal in that chain. This initiative is being driven by food safety, environmental considerations, and humane handling requirements in addition to traditional tenderness, flavor and leanness criteria. Major beef purchasers including Burger King and McDonalds are already mandating higher environmental and humane standards. Participation in this system will increase rural incomes by allowing farmers to fill demands from premium feeder cattle markets for a certified calf from a verified source. This joint venture of the University of Kentucky, Western Kentucky University, the Kentucky Department of Agriculture, the Kentucky Cattleman's Association and Kentucky Farm Bureau should be encouraged and the initiative area expanded to include the western states that are traditionally the market for Kentucky feeder cattle.

Lexington has one of the ten largest cattle markets in the U.S., Bluegrass Stockyards. The stockyard is a major investor in e-Merge, an online cattle market. Internet, video, tele-auctions and graded pool sales make it possible for farmers or groups of farmers to sell pot loads of cattle. A pot load is 50,000 pounds – the legal capacity of a commercial trailer or pot.

This is the package feedlot operators require. Traditionally, order buyers have put together pot loads by bidding on individual animals at a stockyard and adding value using the stockyard's pen space to group them in load lots. Video and internet auction cattle might have come from 10 small herds and yet never set foot in a stockyard. This limits stress on animals and minimizes shipping fever and allows the cattle owner to capture added value. The herd improvements necessary to participate in these auctions include electronic identification and certified health practices.

Meat for Local Markets

Demand for farm raised meat and poultry is growing as food safety concerns increase. Kentucky is in a good position to meet this demand. We have an excellent potential forage resource and a strong history of animal husbandry. A decentralized system of small abattoirs seems best suited for this trade.

Kentucky has 23 USDA inspected abattoirs. The USDA inspects these plants for food safety compliance. Several of these plants are working with producers on branded products. These companies should be encouraged to upgrade facilities to maintain USDA compliance, to add lines for other species such as chicken and to search for innovative offal solutions.

The Kentucky Department of Agriculture has initiated a project to manage dead animal collection. Offal removal should be included in this study. The possibility for composting offal and dead animals should be explored.

The social and environmental problems associated with large-scale animal harvesting facilities should be weighed carefully before encouraging their location in the state. The drainage patterns of the underlying strata, especially in karst regions, should be mapped before approving the location of any slaughterhouse. The employment problems associated with large scale animal harvest facilities have been well documented in 2001 and should be carefully weighed before recruiting such plants for the Commonwealth.

Vegetables

We have major commercial vegetable markets in Kentucky. The nation's largest supermarket chain, Kroger, is headquartered in Cincinnati and has a major distribution center in Louisville. Wal-Mart has a produce distribution center in London. Castellini, a large wholesaler, is headquartered at Wilder and has a packing operation at Dry Ridge. Representatives from these companies have said they would like to increase their use of Kentucky produce. Kentucky should explore cooperation with local businesses before recruiting outside interests.

To date few producers have been able to supply the quantity and quality demanded by these markets. Growers need training to succeed in vegetable production. Production and harvesting require precision to preserve the quality demanded by the market. Only top quality produce can be packed for sale. A grower education program should be developed that includes trips to see successful growers and visits to successful packing operations.

There are a number of tobacco greenhouses in Kentucky that are used for only a small part of the year. According to the Energy Information Administration, Kentucky has the fourth lowest electric utility rates in the nation. Programs to retrofit these greenhouses to grow winter vegetables and flowers using our cheap electricity should be explored.

The fresh vegetable market is thriving. Farmers markets exist in most county seats. Restaurants advertise Kentucky fresh produce. A system of Kentucky Certified kitchens organized at the county and regional level would provide ways to enter this market.

The West: Grain, Bio-Fuels, Livestock, Horticulture and Aquaculture

The farm economy from the Mississippi River Alluvial Plain to I-65 is more like that of mid-western farms to the north and west of Kentucky. The farms are larger. Agricultural commodities like corn and soybeans are major contributors to the farm economy. Farmers are less tobacco dependent.

Western Kentucky farmers have formed strong farm cooperatives like the Hopkinsville Grain Elevator. The co-op is developing a \$32 million dollar ethanol plant. Western Kentucky Growers Cooperative had produce sales this year of over \$3.7 million. The Purchase Area Aquaculture Cooperative has built a processing plant and is developing a market for fresh catfish and other products.

Value Added Grain

Christian County Grain Company is expanding its capacity to clean food grade corn from 200 bushels per hour to 500 bushels per hour. This will increase the number of farmers who can command a premium price for corn. Christian County Grain was the first supplier of corn to Golden Flake Foods for chips. The third generation family elevator has grown from a 15,000-bushel capacity in 1953 to over a million-bushel capacity today. Markets for edible soybeans and other food grade corn products should be explored.

Horticulture

Virtually all of the nursery stock in Kentucky is imported. Ways of opening the \$20 billion market for trees and ornamentals to Kentucky growers should continue to be supported.

Other opportunities

Bio-diesel production, manufacturing renewable fuel from vegetable oils or recycled restaurant grease, should be explored. City, state and county fleets could provide demand for a pilot bio-diesel project.

Marketing and Market Development – Priority #1

The term “marketing” means different things to different people, nonetheless there was broad agreement among participants in the long-term planning process that marketing should be a key component of any plan. The goal of marketing is product image – the creation of a trusted brand name that commands respect and a premium in the marketplace.

The Commonwealth has a valuable asset in its rural landscape. The best way to take advantage of this asset is to preserve it as a working model of itself – as a self-sustaining rural economy. History is a guide. We should aim high. Kentucky’s Rural Economy should have a

wholesome image. We should align ourselves with healthy lifestyle trends. Clean and Green – A Human Scale – Authenticity – Food Purity - Craftsmanship should be our watchwords.

A coordinated effort is required to build the market infrastructure needed to support this image with products. The creation of county, regional and state markets is an important first step in this direction.

The Kentucky Department of Agriculture has begun a state branding campaign. That campaign should be coordinated with the private sector and other state offices. The creation of a quality assurance program for Kentucky agricultural products, with a state seal of approval guaranteeing product verity would add value to our brand and qualify our products for industries with strict product tracking requirements.

Marketing is also delivering products that meet consumer needs. Feedlots want a pot load of like sized cattle. Supermarkets and vegetable wholesalers want boxes of washed and chilled USDA # 1 produce. Restaurants want the prime cut of meat.

Marketing is exploring all possible niches when developing a new product; using existing infrastructure to test new products; and finding value added uses for the products of the waste stream. The farmer who sells her tenderloin to the country club, needs a market for hamburger.

Our rural countryside is a fast appreciating asset as suburbs and strip malls claim chunks of farmland. We can preserve this asset with profitable working farms. In the knowledge-driven economy of the twenty first century, the knowledge worker may not be tied to a geographical location. If Kentucky is an attractive place, we will have a leg up in recruiting these knowledge industries.

Efforts to Develop Markets Have Taken Several Forms

In response to demand from producers at the county level, the ADB approved a series of state model programs aimed at allowing individual farmers to compete for diversification grants and addressing need to upgrade production quality. The need to create a market for this production was clear at local, county and state meetings and conferences.

The Purchase Area Aquaculture Cooperative (PAAC) in Farmington is an effort in that direction. Graves County is on the peninsula formed where the Ohio and the Tennessee empty into the Mississippi, there is ample water to grow catfish in the Purchase.

PAAC was awarded an ADB grant to build a processing plant and to add a freezer capacity in order to compete in the national market for frozen fish. The coop has developed a profitable market for fresh fish, but price competition from long established suppliers in Mississippi and from Vietnamese imports has forced the frozen fish business to operate at a loss. This illustrates the difficulty of competing in the global market.

BEPA is a small Christian County produce wholesaler operated by a young farmer who was squeezed out of tobacco when he couldn't find quota to lease. He went into the sweet corn business and was selling it successfully on the internet, but he was unwilling to take the price offered for his remainders at the Fairfield Cooperative Market. In response, BEPA secured a fresh market with some local independent grocers, opened a vegetable stand on Ft. Campbell Boulevard and began competing for produce on the Fairfield Market with the brokers from

Nashville and Louisville. BEPA was given a Christian County matching grant for another refrigerated truck and a fork lift to expand to meet new contracts.

The Appalachian Sweet Sorghum Marketing Cooperative, Inc., of Jeffersonville, Kentucky is led by Danny Townsend a sorghum maker with 40 years experience. The co-op received an ADB grant for planting, harvest and labeling equipment to meet expanded demand and bar code requirements from Kroger.

Other efforts to create and strengthen farmer market groups have included vegetable and nursery cooperatives. The Center for Cooperatives was funded to help new cooperatives. Tying these fledgling cooperatives to a central database would allow marketing efforts to be more closely monitored.

Projects under review include: farm market showcases in Louisville; a marketing center and business incubator in Northern Kentucky; a farm center in Bath County; an agricultural complement to the new crafts showcase at Berea; and other regional marketing centers. The wine industry has proposals for supporting new grape production.

New Initiatives

The creation of a market in hunting rights would require liability legislation and a registry and inspection system. This could provide significant income to state farmers while reducing the state's excess deer population and should be explored.

The possibility of encouraging state funded institutions such as prisons or state parks to give preference to Kentucky producers should be explored by the General Assembly in conjunction with the development of quality suppliers for these markets.

Building Kentucky's Agriculture Based Businesses

Agriculture based business, agri-business, is crucial to the development of sustainable agriculture in the state. Kentucky owned companies such as FB Purnell Sausage Co., Kerns Kitchen, Torbitt and Castleman, Buckner, Gethsemani Farms, Moonlite Barbecue Inn, Southern Belle Dairy, Dippindots, Inc., Ellis Popcorn, Hudson Brothers, Griffin Pie and Laura's Lean Beef in food processing; wood products companies like McCammish Manufacturing Co. and the Freeman Corp.; and processors like Owensboro Grain Edible Oils, Inc. and Weisenberger Mills add the most value to agriculture products.

We should look first to existing agri-business in the state. These businesses should be surveyed to ascertain possible areas for expansion and ways to increase the use of Kentucky products.

Existing incentive programs are based on job creation, instead of job retention and expansion. These incentives should be modified to give increased weight to the use of Kentucky agricultural products.

In addition to helping established businesses, the state should be actively involved in recruiting and developing new agriculture based businesses provided these businesses meet environmental requirements.

Marketing Requirements and Feasibility Studies

Feasibility studies fill university file cabinets. Some states have programs we could emulate, others have made mistakes we would do well not to repeat. Rather than recreate these studies for each new wave of agricultural development projects, an online catalogue of these resources should be created and maintained. Where there are gaps in this knowledge or questions unique to specific projects, the Governor's Office of Agricultural Policy has resources to commission studies.

Directions

Value added markets demand a reliable supply and a predictable quality. The Kentucky agricultural community's record in meeting these demands varies by commodity. Efforts to market commercial vegetables have had mixed results.

The Thoroughbred horse industry more than meets this test as the standard against which the world market is measured.

Kentucky feeder calves are gaining reputation in response to 20 years of herd improvement initiatives. New marketing methods allow cattlemen to capture the added value of providing uniform load lots to the buyer. The state is positioned to be a dominant player in the feeder cattle market.

A study of the feasibility of locating a feedlot industry in Kentucky (1996 Senechal, Jorgenson, Hale & Company, Inc.) suggested that the minimum economically feasible lot size was approximately 30,000 head. Our muddy winters and relatively high cost of feed put us at a competitive disadvantage according to the study.

Likewise the ability of the state to support a large-scale beef harvest facility or cow kill plant has yet to be demonstrated. Since Kentucky has the largest cow herd in the east, the existing market for cull cows remains strong.

The recent experience of North Carolina suggests that the effluent problems associated with large-scale confinement feeding operations could easily overwhelm our soil's capacity to absorb animal waste.

The chicken industry is concentrated in South Central Kentucky. The industry contributes more than \$300,000,000 in gross income to Kentucky agriculture. Expansion should be based on farmer demand and weighed against company labor and environmental records.

The demand from individual livestock producers for small scale processing is increasing as markets open for farm-raised chickens, processed hams and goat. Meat and meat products for resale must be USDA inspected before they can enter the food system. Kentucky has 23 USDA plants. Expanding existing facilities to meet this demand seems to hold the most promise in the short to medium term.

FINANCING THE FUTURE: IMPROVING ACCESS TO CAPITAL

Access to capital was identified as crucial to the support of agricultural entrepreneurship. Typically farm production credit is readily available, while capital for value-added enterprises

has been subject to high interest rates and strict covenants making it unavailable to any but sophisticated borrowers.

There exist within the lending community a number of sources of funds for various agricultural projects, both production and processing. There appears to be adequate capital throughout all areas of the Commonwealth. Preparing the prospective borrower to access these funding sources may be all that is required to answer the need for traditional agricultural capital.

New agricultural ventures have more limited options because of the unfamiliarity with new ventures by the lending community. Sources of equity capital exist, but are difficult to access in Kentucky even for non-agricultural projects.

The Agricultural Development Board has seen a number of creative ideas. Ideas, however, translate into viable businesses with difficulty. Some of these were sophisticated and required a large capital investment, others showed promise for added value with a minimal investment. The difficulty often lies in the ability of the producer to execute the business plan, if in fact a business plan even exists. To address this need, the Agricultural Development Board has entered into an agreement with the Kentucky Small Business Development Center which is cooperating with extension agents to offer business planning courses.

In order for a farm business to determine its profitability, the farmer needs accurate financial information. In its Model Agricultural Diversification Program, the ADB has agreed to underwrite 50% of the cost of the Farm Business Analysis program offered through the University of Kentucky's Extension service. Continued support for producer participation in the Farm Business Analysis program should be encouraged and opportunities explored through county programs for making the service available to more producers.

Currently within the state there are a number of micro-lending agencies working with very small businesses, providing assistance in business development, and issuing loans of less than \$35,000. Funds are provided through the Small Business administration (SBA), and include dollars both for loans and technical assistance. The technical assistance financing is based on the amount of outstanding loans (typically 20% of the portfolio annually), thus allowing for continued assistance after the loan is made.

SBA requires a match of 20% to establish a loan loss reserve in the micro-loan company. Regional micro-lending agencies offer low-cost capital, localized technical assistance, and leveraged federal funds. Agricultural Development Funds should be set aside to encourage the development of agricultural lending programs among these micro-lenders.

Providing Adequate Capital

The Kentucky Agricultural Finance Corporation (KAFC) was created by the Kentucky General Assembly in 1984 to address the unique financing needs of agriculture. It is currently inactive. This agency should be restructured to provide capital for agricultural diversification and infrastructure projects.

KRS 247.940 – 247.978 set the framework for the Kentucky Agricultural Finance Corporation. According to legislative findings set forth in 247.940 (2) a reason for the establishment of KAFC was the recognition that "...private enterprise and investment have not

been able to produce without assistance, the capital necessary to permit the small, family farm operators to continue to compete successfully in agricultural enterprises.” Included in the findings was the charge that KAFC would “promote new agricultural ventures.”

As established in KRS, KAFC serves principally as a lender, providing either direct loans or loan guaranties. The organization has the ability to raise capital through issuance of revenue bonds, including the issuance of revenue bonds as allowed under KRS 103. Certain requirements in the act are intended to follow those in the Internal Revenue Code to permit the issuance of Agricultural Bonds for first-time farmers. The statute has a fairly broad definition of agriculture that includes diversification and alternative crop production. No specific mention is made of value-added processing. Clearly the value-added approach will allow for increased income to Kentucky producers.

The definition for "first-time farmers" must conform to the requirements of the Internal Revenue Code, in order to maintain the agricultural bond program allowed by that law. Provisions should be made to raise permissible income levels to take into account off-farm employment that enhances farmer income or provides health care and other benefits that otherwise would not be available to the farm family.

While the statute does contemplate assistance to any legally formed entity, the definition prevents assistance to newly formed ventures in that income must be generated in the year before the assistance is provided. Thus any new entity, for example one created for the purpose of value-added processing, would be ineligible for assistance under the current law.

Forms of Financial Assistance

Linked Deposit Loan Program

The KAFC statute is sufficiently broad to allow for direct loans, loans through private lenders and loan guaranties provided by KAFC. A similar loan-to-lender program currently exists through the state's Linked Deposit Investment Program. As set forth in KRS 41.600 - 41.625, funds from the State Treasurer's unclaimed and abandoned property program are invested in financial institutions (including members of the farm credit system) at interest rates equal to the Prime Rate as published in the Wall Street Journal on the first day of each month, less 4% percent (minimum rate no less than 2%). The bank then makes a loan at the Prime Rate (minimum interest rate of 5%). At the time of this writing, with the Prime Rate at 5.5%, the bank spread is 3.5%, the state receiving 2% for its investment.

Currently funds are available for both small businesses and agri-businesses, with a maximum loan amount of \$100,000 and a maximum maturity of seven years. The program is not a guaranty, but rather an investment in a bank. The credit decision when made by the lender is likely to be tied to risk aversion, since the ultimate responsibility for repayment of the investment to the Commonwealth lies with the financial institution.

The Kentucky Economic Development Cabinet (KAFC) administers the small business program, while the Kentucky Department of Agriculture administers the agribusiness portion of the program. In the area of agribusiness lending, the program has had modest success. It generally has been a program for higher quality borrowers, given the obligation of the lender to repay the investment.

The value-added lending function now administered by the Kentucky Department of Agriculture should be moved to KAFC and minor changes made to the eligibility requirements. Specifically the definition of "agribusiness" includes persons engaged in agricultural endeavors (not defined) but requires at least one-half of annual gross income be derived from farming (gross earnings not to exceed \$1 million per year). Given the nature of family farm income, often with one spouse working off-farm, this 50% of income derived on farm may be difficult to attain, and should be modified. Discussion also should focus on definition of agriculture endeavor, with a goal of conforming definitions in both the KAFC and the Linked Deposit legislation.

Direct Loans, Loan Purchases and Loan Guaranties:

Currently KAFC has a direct loan fund. There was only \$500,000 in this fund at the beginning of 2002. As noted earlier KAFC currently has authority in its enabling legislation to issue bonds for direct loans, loan purchases from commercial lenders, and loan guaranties. Agricultural Development Funds could be used to capitalize the loan fund directly and could serve as leverage in obtaining other funds for the loan pool, for example, funds from federal agencies that become available from time to time for agricultural endeavors.

KAFC has the authority to provide below market financing by using tax-exempt financing for first time farmers in accordance with rules set out in the Industrial Revenue Code. KAFC also has the authority to issue bonds outside of the Internal Revenue Code requirements at non-tax-exempt market rates. This kind of debt issuance could be used to establish a larger revolving loan fund immediately, rather than to build up a loan fund with money set aside from Phase 1 dollars. The fund would require an annual set-aside of Agricultural Development Funds as the primary source of repayment for the bond debt service. This would allow the revolving loan fund to build up as repayments of principal and interest were made back to the fund.

Under this arrangement Agricultural Development funds could be used to service debt over the life of the bond issue, but the proceeds of the bond issue would be set aside exclusively for direct lending at rates, conceivably below market, established by the KAFC board.

Since the bonds would be repaid with funds exclusive of the repayment from the individual loans, financings could be made available at rates different from the rates charged for the bond issue itself, thus providing additional flexibility to KAFC in structuring financings for farm-based and other agricultural businesses.

KAFC would continue to serve as issuer of financings for "first-time farmers" as set out in the Internal Revenue Code. In this case the agency would be a conduit for the financing and the underlying credit would be the assets being financed. Specifically there would be no liability for repayment by KAFC, and because the bonds could be issued as tax-exempt instruments, the borrowers would obtain below market financing for sums potentially greater than could be obtained through the agency's direct loan program.

The funds would be available for all agricultural borrowers, either as direct loans or as purchases of loans from commercial lenders, with the corresponding interest rate savings passed on to the borrower. Whenever possible funds should be used to compliment funds from private sources. For example, in keeping with the Agricultural Development Board's existing

philosophy of a 50 percent match, a loan equal to fifty percent of total project costs should be contemplated.

The question should be asked whether KAFC should be making direct production loans, when the private sector is better suited for such activity. The private lenders are closer to the borrowers and thus have better ability to oversee the collateral being offered for loans. Indirect lending from KAFC likely is a better approach here, and in this instance a loan-to-lender program would be the more appropriate form of assistance, particularly if it could be tied to the Linked Deposit program. The borrower still would be able to benefit from below market interest rates, while program administration costs would be reduced.

Some Phase 1 funds should be set aside exclusively for the purpose of loan guaranties. Such a program could function to establish, with participating lenders, a loan loss reserve into which KAFC would contribute some amount (perhaps less than 3% of the total loan), with comparable amounts being contributed by the lender and borrower. The loan loss reserve pool would build up as additional loans were made provided the default rate was kept to a minimum.

KAFC should explore lending part of the percentage of a loan not guaranteed through existing federal guaranty programs. The U.S. Small Business Administration and USDA's Rural Development Administration have programs that will guarantee a certain portion of a private lender's loan. Typically in the event of a default the lender goes to the federal agency and collects the guaranteed portion of the loan. The federal agency then allows for the liquidation of assets to collect the remainder of the loan. If there is a shortfall below the guaranteed portion, the federal agency absorbs the loss. The non-guaranteed portion is the lender's responsibility. A restructured KAFC could enhance the amount of guaranty by participating in this portion of the loan and agreeing to share equally with the bank in any losses or recoveries that resulted from liquidation.

Venture Capital and Near Equity Type Programs:

A separate pool of Agricultural Development Funds should be set aside to serve as equity or near-equity in agricultural ventures. An example of a near-equity participation might include a loan convertible to ownership based upon the occurrence of certain events. All equity-type financing should be limited to innovative agricultural diversification, or new agricultural technologies with possibilities for significant return on investment, which would not otherwise meet the security requirements for traditional lending. It should include agricultural research and development targeted by the Kentucky Innovation Commission, but based upon board approval could include other ventures as well. Any equity positions taken by a venture capital fund could return to the fund for reinvestment in fund-related activity.

FINANCIAL INCENTIVES FOR ENVIRONMENTAL STEWARDSHIP

The Commonwealth's long term plan for agriculture recognizes the state's rural landscape and environmental quality as valuable assets in marketing both Kentucky and its agricultural products.

To preserve this asset, we must re-evaluate harvest techniques and management schemes for long-term sustainability. Certified sustainable programs and incentives must be encouraged. Kentucky should embrace national and international programs like sustainable

logging, by rewarding state companies who follow this practice and pressuring those who do not.

Symbiotic crops such as mushrooms, ginseng and other herbs can provide rewards to individual woodlot owners for following sustainable practices. Forestry officials should be trained to recognize the value to landowners of the development of symbiotic crops in woodlots.

We have historically underestimated the economic, ecological, social and cultural values of forests. With 92 percent of these assets in private hands, primarily in tracts of less than 50 acres per landowner, fragmentation has made coordinated management difficult. The 1998 Forest Conservation Act was a step toward addressing this need by providing training for loggers, however, the need for landowner technical assistance has been largely unmet.

The Forest stewardship Incentive Fund was established by the General Assembly in 1998 to serve as a way to provide financial assistance to landowners for stewardship practices. Funding for this program is generated through fines levied against violators of acceptable forest management practices. The current balance in the fund is \$675. This indicates the need for better enforcement of forest management rules.

Regulations requiring farmers to limit livestock access to waterways and to plant riparian buffer zones are contemplated under the Agriculture Water Quality Act. The Kentucky Soil Erosion and Water Quality Cost Share Program was established by the 1994 General Assembly to assist Kentucky producers in meeting the requirements of this act. During the 2000 session of the General Assembly, \$18 million from the Agricultural Development Fund was appropriated to assist Kentucky's landowners through the Kentucky Soil Erosion and Water Quality Cost Share program. This funding should be continued.

Farmland Preservation Programs

Farmland preservation programs such as the purchase or donation of development rights can be a valuable tool for preserving agricultural assets, particularly those near urban areas. Currently the state, Fayette County and several national conservation organizations are using these options

Purchase of Developmental Rights (PDR) programs require coordination with county planning and zoning boards. Governor Patton's Smart Growth Initiative addresses this need. PDR combines the use of government planning with market-based incentives. Maryland has been a leader in developing this method of preserving threatened farmland.

KENTUCKY FARM FAMILY EDUCATION PAYS

Priority should be given to developing a state-wide on-line library of agricultural development resources and conducting farm business accounting and analysis programs. County Extension offices should be encouraged to offer county-based programs aimed at improving farm family internet access, and developing farmer-to-farmer training programs. Programs should focus on the needs of farm families in the areas of financial planning, personal development and basic computer literacy.

Kentucky farm families are in need of better access to GED programs, two-year and four-year degree programs and vocational training. The Kentucky Community and Technical College System (KCTCS), Kentucky Virtual University, Land Grant and Regional Universities, and the division of Secondary Vocational Education could provide this access through short winter courses and night courses to better match the time available to farmers.

Information technology is an important component of the long-term plan. In order to participate in the proposed state electronic marketing system, farmers will need access to a computer and to be able to enter and receive product information.

The demands of product tracking placed on agriculture by increasingly strict food safety requirements will necessitate a barcode system for produce. Both the five-state beef cattle initiative and the statewide agriculture marketing system will require barcodes on products for sale. Farmers should be assisted to meet the demands of this new technology.

SUPPORTING LOCAL LEADERSHIP

Leadership Development

Kentucky's rural communities are in a state of transition. The decline in the economic significance of burley tobacco combined with the risk and uncertainty associated with agriculture in general has placed added strain on rural economies. Funds should be available in each extension area of the state (see map) to organize community-based leadership programs.

County Agricultural Council Support

County Agricultural Development Councils have assumed substantial responsibility at the local level for the future of Kentucky agriculture. Limited administrative funds have been a handicap to the councils. A mechanism should be established to allow use of county Phase 1 funds for expenses associated with Council functions including:

1. Field days, training meetings, workshops or other events linked to Agricultural Development Board projects.
2. Regular meetings of the Council (including meal costs for members).
3. Community planning functions sponsored or co-sponsored by the Council.
4. Printing, publicity and information dissemination related to Agricultural Development Board projects and programs.
5. Communications and information technology costs related to the administration of the Council and its functions.

Enhancing the Extension Network

The Kentucky Cooperative Extension Service has been assigned new roles and assumed broad responsibilities under the Commonwealth's agricultural development initiatives. The county agents' newly mandated functions include commitments to planning, implementation and evaluation of projects and programs of county agricultural development councils and the Agricultural Development Board. These functions spill over into the broader issues of community economic development. State extension leadership and specialists must assume responsibility for providing agents with the support required to meet these new challenges.

While the growth and viability of rural communities is ultimately dependent upon the ability and initiative of farm families and rural leaders, the extension system serves as a vital element of the infrastructure required to foster their success. Extension needs appropriate support for this mission in the future.

Enhanced training and continuing education for county personnel are the keys to improved job performance and program delivery. Clear standards for continuing education should be established. Extensions' communications and internet technology infrastructure should be improved to better support both distance learning for agents and statewide access to educational programs. Kentucky agents hold fewer Master's degrees than their counterparts in other states. Master's programs should be tailored to the extension agent's role. Public administration, community development, agricultural education, and business administration programs could be tailored to extension agents.

In order to recruit and train the best agents salaries should be upgraded. Kentucky's extension agent salaries rank 47th in the nation, last among the University of Kentucky's benchmark institutions, and last in the Southern region.

Salary issues will need to be addressed through recurring fund sources. If long term funding is not available, consideration should be given to supporting an achievement and professional development-linked incentive program. This program should reward agents for achieving specific professional development and continuing education standards. Incentives, such as an Agricultural Development Board award of merit, should be explored.

Kentucky's ability to seize opportunities depends directly on the awareness and responsiveness of local leaders to the issues confronting rural communities. Nurturing local leadership, adequately supporting County Agricultural Development Councils, and investing in the enhancement of the Extension Service network will better position rural leaders to create new opportunities in their communities.

RESEARCH AND DEVELOPMENT

Bio-technology, genetic engineering and molecular farming hold promise for adapting agricultural crops and livestock to new purposes. Plants and animals may be engineered to produce a variety of valuable biological molecules ranging from vaccines to biodegradable plastics.

Large Scale Biology Corporation (LSB) operates a facility at Owensboro that has genetically engineered the tobacco mosaic virus to produce a vaccine that prevents recurrence of non-Hodgkin's lymphoma, a cancer of the lymph system.

LSB is different from other biotech companies that engineer animals and plants into production systems. LSB has rejected permanent genetic modification of plants and animals. Instead the company inserts genes that make a therapeutic protein into the tobacco mosaic virus. LSB then infects tobacco with the transgenic virus and gets the plant to serve as a temporary factory to produce the desired molecule. [footnote Scientific American Oct. 2001]

Molecular farming with tobacco, would appear to be well suited to Kentucky and should be added to the list of emerging enterprises in Kentucky that includes goats, shrimp, blueberries and mushrooms.

While the commercial progress is exciting, molecular farming is still an emerging industry. As Kentucky seeks to take advantage of opportunities presented by molecular farming, it is imperative that policy makers recognize widespread concerns about the implications of these technologies. Issues raised by farmers, consumers and governments in Mexico, Canada, Brazil and Europe illustrate the international debate about bio-technology. Concern about human health and safety issues have arisen in European and Japanese markets. Food labeling, segregation of traditional and genetically altered crops, and environmental impacts are major issues in a number of countries.

Often purveyors of new technology seek to minimize ecological risks and maximize profit potential. The role of molecular farming in Kentucky should receive further attention, discussion and deliberation in open meetings. The economic and ecological stakes in agriculture require that the potential long and short-term risks and benefits of this technology be fully deliberated. Representatives of industry, farmers, researchers, ecologists, consumer groups, regulatory agencies, and other interested parties should be included in such deliberations. One specific topic of public deliberation should be how to assure material benefit for farmers through novel models of intellectual property ownership and commercialization.

9:00AM, January 18, 2002

Commissioner Billy Ray Smith called the meeting to order.

Testimony:

John-Mark Hack advised that the Community Farm Alliance and Kentucky Cattlemen's Association requested the opportunity to present their opinions and suggestions for changes to the draft of the Long-Term Plan (LTP).

Mr. Hack introduced Martin Richards with the Community Farm Alliance. Mr. Richards stated that the CFA "is delighted with this Long-Term Plan". He further stated that the CFA has concerns in three areas that needs further discussion: 1) CFA states that the LTP should not include settlement monies for promoting off the farm jobs; 2) CFA states that the LTP should not include expenditure of tobacco settlement funds for research and development of genetically engineered organisms; and 3) CFA states that if Kentucky recruits out of state agribusinesses, the state's due diligence should go beyond the company's environmental record, and include partnerships and profit sharing with the participating farmers and many other parameters.

Next, Mr. Hack introduced Charles Miller, President of the Kentucky Cattlemen's Association. Mr. Miller commended the ADB for the outstanding work done on the LTP. He called the ADB members' attention to page 5. He advised that the Five State Beef Initiative is the only mechanism mentioned and requested that the board add the Kentucky Beef Network.

Commissioner Smith asked if anyone had additional comments.

Hank Graddy with the Sierra Club asked to address the board. Mr. Graddy stated that he appreciated the opportunity to address the ADB. He further stated that in the process of developing this document, Governor Patton and the Governor's Office of Agricultural Policy had given everyone opportunity to be heard and most ideas were incorporated into the LTP. Mr. Graddy stated that the Sierra Club had the following concerns: 1) The LTP needs to further delineate the priorities. Goals should be clearly defined, steps that will support the implementation of the goals should be identified, a budget should be established, source of funds identified, and tasks must be assigned to implementing agency; 2) Funds should not be directed toward developing off farm income; 3) Large scale animal harvesting facilities should not be part of the LTP; and 4) Kentucky should not compete to raise cheap food nor genetically engineered food.

Mr. Lawson asked Mr. Graddy if the Sierra Club endorsed his comments. Mr. Graddy stated that the Sierra Club had not endorsed his comments at that time; however, he did expect them to vote to endorse those same comments at the next Sierra Club meeting.

Richard Jones, a Franklin County farmer reminded the ADB that farmers need a market for their production. If there is a market Kentucky farmers will produce for that market.

Executive Summary:

Mr. Hack and the ADB members reviewed the LTP page-by-page and selected specific goals and/or recommendations that would be included in the document's Executive Summary.

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With a motion from Sam Lawson and a second from Danny Case The Agricultural Development Board adopted the following document as the final version of the Long-Term Plan, subject to review by Board Members for the purpose of verifying that all changes were incorporated into the final document. The motion passed unanimously by voice vote.

Cultivating Rural Prosperity: Kentucky's Long-Term Plan for Agricultural Development

Executive Summary

This document is the result of a year-long discussion on how to maintain the economy of rural Kentucky while adapting to structural changes in the tobacco market, until 2000 the largest agricultural market in the Commonwealth. It is more a first step rather than the last word toward a blueprint for the future of Kentucky agriculture.

The aim of this plan is to preserve and enhance the social fabric of rural Kentucky while building a sustainable economic base rooted in local communities and maintaining the environmental integrity of the Commonwealth. The Agricultural Development Board (ADB) and the Governor's Office of Agricultural Policy have tried to be open and inclusive. Everyone's input was sought, and everyone who spoke was heard. Councils in each of Kentucky's counties submitted agricultural development plans. Regional and statewide meetings were held. This report is a distillation of that discussion with suggestions for the scale and direction of Kentucky agriculture.

Governor Paul Patton and the legislators supporting House Bill 611 initiated this effort with the appropriation of money awarded the state in settlement of its lawsuit demanding recompense for tax dollars spent treating tobacco related diseases. The infusion of more than \$120 million for the development of crops and markets to fill the void left by tobacco's contraction spurred this initiative with matching cash for those with workable agriculture based business plans, projects or ideas.

To date most dollars from the Agricultural Development Fund have been spent to bolster production. In order to build a sustainable agricultural system, Kentucky must begin to organize and construct markets for that production. These market systems should include county seat farmer's markets, regional markets to pack wholesale agricultural products, certified kitchens with labeling machines to process local food items, urban markets to showcase our best agricultural products.

Although money for production agriculture loans is available, funds for value added agricultural projects and new farm-based enterprises are hard to find. The Kentucky Agricultural Finance Corporation should be revived to provide financing options for farm and farm market development. Private and public lenders should be provided incentives to stimulate agricultural lending in areas considered "non-traditional" in Kentucky Agriculture.

The Commonwealth should reward good stewards of the land and water with financial incentives to implement best management practices. Water quality and soil erosion

management, timber stand management and farmland preservation efforts represent effective means of providing financial assistance directly to producers while creating a public good from the environmental benefits realized by such efforts.

Farm family education and computer literacy are important ways to improve farm business management. Programs aimed at improving farm family internet access, developing farmer-to-farmer training, and efforts focused on farm accounting, and business analysis and financial planning should be made more accessible.

Local leadership resources are important to the sustainability of Kentucky's effort to redevelop its rural economics. Local leadership development programs, financial support for the administration of county agricultural development councils, and the enhancement of the Cooperative Extension Service through improved training and performance incentives for agents represent ways to cultivate local leaders.

Maintaining and expanding agricultural research and development efforts is crucial to providing producers the information they need to meet changing consumer demands. Such research should be targeted to the existing scale of Kentucky agricultural production.

The Kentucky Department of Agriculture should initiate an agricultural product certification program as a prerequisite for access to state funded markets such as schools, parks and prisons. This certificate should include a barcode listing point of origin and processor in order to qualify for national and international commerce.

The State Health Department's Environmental Health Management Information System database should be expanded to include USDA inspected meat and poultry processing establishments. This database should be integrated with the Kentucky Department of Agriculture database and enhanced to include an inventory of state certified agricultural products and direct sale capability. These products would then be eligible for state contracts and the producers would be linked to state, national and world markets.

Commonwealth Agriculture: Vibrant Economy, Thriving Communities, A Healthy Environment




Kentucky is a uniquely rural state. Our geology and geography have until now enforced a scale of agriculture and development that fostered numerous small communities. We have 120 counties – each county seat a theoretical day's ride from the next. We have more farms than any state east of the Mississippi River. Thanks to the cash crop tobacco our rural economy has been maintained. Our farm products have a history.

Our cash crop is shrinking. The production of tobacco is being concentrated in fewer and stronger hands. The thousands of small-scale producers that knit the rural fabric of our Commonwealth are in need of replacement income. Any replacement enterprises should fit within the scale of the tobacco economy, use the existing agricultural land base, and provide a comparable income to tobacco.

While thousands of Kentucky farm families make their living as full-time producers, more than 50 percent of Kentucky farmers are part-time farmers. Farming accounts for less than 20 percent of the income of these farmers. Although markets for value added products may eventually replace lost tobacco income, any plan for the long term prosperity of rural Kentucky should make provisions for off-farm employment.

The Commonwealth has been blessed with both the political will and the financial means to redesign its rural economy. The preservation of our rural landscapes can be a valuable asset in preserving the social fabric on which rural health depends.

This plan seeks to adhere to three principles of sustainable development:

-  Adding value to local agricultural products, exploiting market niches for pure and wholesome foods and promoting the rural landscape of Kentucky as an asset
-  Retaining the present scale and individual ownership of Kentucky agriculture by preserving working farms on Commonwealth farmland preserves our rural towns and communities.
-  Minimizing the burdens on natural resources and rewarding good land stewards with a decent living will enhance the Kentucky environment.

There are three rural ecosystems in Kentucky – Eastern, Central and Western. Although the borders of these districts are not clearly defined, they are recognized by the residents. The state's long-term plan for agriculture should reflect these regional differences and provide solutions tailored to the local environment. The emphasis on certain enterprises in each area is not meant to proscribe other agricultural activity. There are tobacco farmers with 100,000 pounds of base in Eastern Kentucky. Western Kentucky has horses and tobacco. There are large-scale Central Kentucky grain farmers. What the plan attempts to identify are areas of concentration within each region.

East Kentucky

Timber

The Appalachian Mountains contain a significant hardwood reserve. More than ninety percent of this forest reserve is privately owned. Few of these owners actively manage their forests. Most of the trees are exported from Kentucky as logs.

Kentucky timber competes in a global market. To capture value in this market we must recognize the worth of our hardwoods, improve our management of this asset, and improve our processing infrastructure. Our woodlands are under valued and neglected. State foresters should undertake a county-by-county inventory using new digital and global positioning technology. This information should be catalogued in a state database.

There are excellent furniture craftsmen in the area. A furniture factory using craft association designs to manufacture Kentucky reproductions advertised for sale in literary and architectural journals could be the foundation of a high-end furniture industry. The Economic Development Cabinet and the Kentucky Department of Agriculture should continue to explore the market for furniture and other large-scale craft production.

Valuable symbiotic crops such as ginseng and mushrooms can provide a reward for good stewardship and should be encouraged. Funds should be made available for woodlot demonstration projects and to develop markets for these types of products.

Kentucky has more than 20 kinds of edible wild mushroom. Shiitake and Morels grow well in our woodlands and can return as much as \$1000 per acre at harvest. New inoculants minimize the amount of labor needed to harvest a mushroom crop. A state database could connect restaurants and wholesalers with Kentucky mushroom producers.

Kentucky is a leading supplier of wild ginseng. Mature ginseng can bring \$400 per pound. The introduction of a market for virtually wild ginseng could provide a vehicle for establishing an internet auction system and setting industry standards. Efforts to promote and create a transparent market for virtually wild ginseng should be encouraged.

Livestock, Vegetables and Other Opportunities

In the livestock industry, efforts are underway to provide market venues for pre-conditioned feeder cattle and the area's growing goat herds. ADB programs provide cost share dollars to upgrade herd genetics, build handling facilities and improve forage management. Eastern Kentucky initiatives like the Heifer Development Project complement efforts in other parts of the state to improve market opportunities for all types of livestock.

Cumberland Farm Products, a strong vegetable cooperative, is the heart of East Kentucky vegetable production. The cooperative has been awarded ADB grants for expansion. Diversification grants are available to new vegetable growers. The cooperatives should actively recruit new members as a condition of this funding.

Eastern Kentucky has good soils and growing conditions for wine grapes. The Equus Run Winery is recruiting growers in Eastern Kentucky. There is a ready demand for blackberries, strawberries and raspberries. Kentucky regional certified kitchens will let farmers convert these and other fruit and vegetable crops into value-added farm products. After KDA

certification, these products could be available for sale on websites such as Kentuckyvirtual.com and included in a state database of agricultural products.

Tourism

The trend toward healthier living is illustrated by the growing amounts of money spent on health and sport. As people live longer they are more concerned about health. A recreational infrastructure that makes use of Kentucky's rural landscape can attract both tourists and retirees. The Pine Mountain Trail is an excellent start toward a statewide trail system. Kentucky projects are part of a national movement to develop hiking, cycling and horseback riding trails. A Kentucky trail from Pine Mountain to the Virginia Creeper Trail, which is just over the border in Wise County, Virginia, would connect Kentucky to the Appalachian Trail which runs from Georgia to Maine. There is an extensive trail system including the John Muir Trail in the Daniel Boone Forest. The Mississippi River Trail runs through western Kentucky. West Virginia and North Carolina are developing trail systems.

A costs/benefits study of a state system to connect the major national trails in the state should be undertaken. Such a trail system could provide the infrastructure to support rural businesses including outfitters, tour agencies, tour guides, livery stables, bed and breakfasts, restaurants, bicycle shops and produce stands. The trail systems of England and Ireland are examples of the economic potential of walking, cycling and horseback riding tourism.

Both private and public initiatives support agri-tourism in the state. The South East Coal Company store at Seco has been converted into a winery, music venue and bed and breakfast. The Kentucky Department of Agriculture is developing an agri-tourism plan. These efforts should be supported and encouraged.

Information Technology: Knowledge-Based Small Farm Income Supplement

Many farmers or their spouses work off the farm to secure health insurance and extra income. For example, tech support, the person who answers questions about your new computer, provides jobs in East Kentucky. This is entry-level information technology. Information technology is non-polluting. The wages are adequate and companies offer health insurance. These companies can provide entry-level knowledge worker positions, farm family health insurance and the supplemental income to help keep rural communities intact. A coordinated effort with the Economic Development Cabinet is needed to find other non-polluting businesses that can supplement farm incomes.

Knowledge workers are the key players in the emerging information age economy. Knowledge workers have two basic needs: formal education to fit them to knowledge work and continuing education to keep that knowledge up to date. Much of continuing education can now be delivered electronically. A radiologist or critical care nurse can practice his craft in any properly equipped facility. A programmer may need only a fast internet connection to do her work. Sophisticated knowledge industries in the mid-twenty first century will likely be able to locate wherever they can find and keep the knowledge workers necessary to run their operations.

The effort to preserve the rural landscape and human scale of the Commonwealth will complement the major investment Kentucky has made in education and provide another valuable recruiting tool for knowledge industries.

Central Kentucky

Horses

Horses are the premier agricultural product of the Commonwealth. The home of fine Thoroughbreds is an image projected by Kentucky to the rest of the world. The national and international horse operations in Central Kentucky support a large and profitable industry that includes veterinarians, farriers, feed dealers, trainers, grooms and others. The state should remain sensitive to the needs of the horse industry.

Pleasure horse numbers are growing. There are more gaited horses and Quarter Horses in Kentucky than Thoroughbreds. The development of county markets for horse quality hay should be encouraged. A trails initiative could boost the state's horse industry by opening new markets.

Tobacco

Tobacco will continue to be an important crop for Kentucky. Central Kentucky is the Commonwealth's Burley Belt. Farmers in the Licking River Valley, the Bluegrass plateau and Barren River Basin will continue to grow the lion's share of Kentucky tobacco. The burley infrastructure is well developed in these areas.

The burley tobacco marketing system is changing. Cigarette companies are substituting grower contracts for the traditional auction system. By refusing to employ USDA tobacco graders these companies could cause the loss of federal price supports and quota control for tobacco. Other companies have been willing to use USDA graders. Farmers will have a referendum in 2002 on the issue of USDA grading. Regardless of the outcome of this vote, the state should work with the Burley Tobacco Cooperative to see that the tobacco market system is fair and open and protects the economic interests of Kentucky farmers.

Hundreds of millions of dollars have been provided to tobacco quota holders and growers since the establishment of the National Tobacco Growers Settlement Trust (Phase II). Since December 1999, federal payments through the Tobacco Loss Assistance Program and annual payments from the Growers Settlement Trust will have provided by December 2001 over \$650 million in direct, unrestricted cash payments exempt from state income tax. Farmers are urged to use these resources to match Phase 1 money available to strengthen local agricultural enterprises.

Forages & Hay

The most direct route to improving animal performance is by improving forage management. Our pastures are dominated by Kentucky 31 fescue. Extension surveys estimate 8 million acres of fescue in the state.

The endophyte associated with Kentucky 31 fescue protects the plant at the expense of the animal. Eating endophyte-infected fescue raises cattle body temperature in the summer and causes reproductive problems in both cattle and horses, according to University of Kentucky Agronomists. When cattle are allowed unrestricted access to pasture they tend to select more palatable species such as clovers and other cool season grasses.

Innovative farmers have demonstrated that a rotational grazing regimen, one that mimics the natural movement of grazing herds to fresh pastures, encourages a healthy mixture of grasses and clovers in pastures and increases weight gain in all forms of grazing livestock. Rotational grazing, pasture renovation and soil building techniques should be included in farm demonstration projects throughout the state.

Less than 15 percent of the hay used in the horse industry is from Kentucky, according to the Kentucky Department of Agriculture. The horse industry demands hay that has been properly cured, because a single moldy spot can result in a large vet bill or worse. Investments in improved forage production and handling practices could help open the horse hay market to Kentucky farmers. Efforts to create state certified hay markets should be renewed.

Feeder Cattle

Kentucky is the largest feeder cattle producer east of the Mississippi River. Because of favorable weather, soils, topography (and assuming the proper management of our forage base) Kentucky's feeder cattle production cost could be among the lowest in the U.S. The Beef Quality Initiative, The Kentucky Beef Network and the Master Cattleman program are part of a coordinated effort by the beef industry to address quality assurance concerns. These programs are raising the value of Kentucky cattle and should be supported and encouraged.

Kentucky is participating in the Five State Beef Initiative (FSBI). This system is designed to create an information-driven beef supply chain based on the electronic identification of each animal in that chain. This initiative is being driven by food safety, environmental considerations, and humane handling requirements in addition to traditional tenderness, flavor and leanness criteria. Major beef purchasers including Burger King and McDonalds are already mandating higher environmental and humane standards. Participation in this system will increase rural incomes by allowing farmers to fill demands from premium feeder cattle markets for a certified calf from a verified source. This joint venture of the University of Kentucky, Western Kentucky University, the Kentucky Department of Agriculture, the Kentucky Cattleman's Association and Kentucky Farm Bureau should be encouraged. Similar quality control measures to include the states that are traditionally the market for Kentucky feeder cattle should be explored.

Lexington has one of the ten largest cattle markets in the U.S. at Bluegrass Stockyards. The stockyard is owned by e-Merge, an online cattle market. Internet, video, tele-auctions and graded pool sales make it possible for farmers or groups of farmers to sell pot loads of cattle. A pot load is 50,000 pounds – the legal capacity of a commercial trailer or pot. This is the package feedlot operators require. Traditionally, order buyers have put together pot loads by bidding on individual animals at a sales facility and adding value using the facility's pen space to group them in load lots. Video and internet auction cattle might have come from 10 small herds and yet never set foot in a sale barn. This limits stress on animals and minimizes shipping fever and allows the cattle owner to capture added value.

Meat for Local Markets

Demand for farm raised meat and poultry is growing as food safety concerns increase. Kentucky is in a good position to meet this demand. We have an excellent potential forage resource and a strong history of animal husbandry. A decentralized system of small-scale animal processors, or abattoirs, seems best suited for this trade.

Kentucky has 23 abattoirs that are inspected by the USDA for food safety compliance. Several of these plants are working with producers on branded products. These companies should be encouraged to upgrade facilities to maintain USDA compliance, to add lines for other species such as chicken and to search for innovative offal solutions.

Vegetables

We have major commercial vegetable markets in Kentucky. The nation's largest supermarket chain, Kroger, is headquartered in Cincinnati and has a major distribution center in Louisville. Wal-Mart has a produce distribution center in London. Castellini, a large wholesaler, is headquartered at Wilder and has a packing operation at Dry Ridge. Representatives from these companies have said they would like to increase their use of Kentucky produce. Kentucky should explore cooperation with these and other local businesses before recruiting outside interests.

To date few producers have been able to supply the quantity and quality demanded by these markets. Growers need training to succeed in vegetable production. Production and harvesting require precision to preserve the quality demanded by the market. Only top quality produce can be packed for sale. Present grower education programs should be expanded and should include trips to see successful growers and visits to successful packing operations.

There are many tobacco greenhouses in Kentucky that are used for only a small part of the year. According to the Energy Information Administration, Kentucky has the fourth lowest electric utility rates in the nation. Programs to retrofit these greenhouses to grow winter vegetables and flowers using our cheap electricity should be explored.

The fresh vegetable market is thriving. Farmers markets exist in most county seats. There are 68 municipal markets and 44 roadside stands in the state. Restaurants advertise Kentucky fresh produce. A system of Kentucky Certified kitchens organized at the county and regional level would provide certified produce for farmer's markets and ways to enter commercial markets. On-farm processing opportunities should be fully explored.

West Kentucky

The farm economy from the Mississippi River Alluvial Plain to I-65 is more like that of mid-western farms to the north and west of Kentucky. The farms are larger. Agricultural commodities like corn and soybeans are major contributors to the farm economy. Farmers are less tobacco dependent.

Western Kentucky farmers have formed strong farm cooperatives like the Hopkinsville Grain Elevator. This co-op is developing a \$32 million dollar ethanol plant. Western Kentucky Growers Cooperative had produce sales this year of over \$3.7 million. The Purchase Area Aquaculture Cooperative has built a processing plant and is developing a market for fresh catfish and other products.

Value Added Grain

Christian County Grain Company is expanding its capacity to clean food grade corn from 200 bushels per hour to 500 bushels per hour. This will increase the number of farmers who can command a premium price for corn. Christian County Grain was the first supplier of corn to Golden Flake Foods for chips. The third generation family elevator has grown from a 15,000-

bushel capacity in 1953 to over a million-bushel capacity today. Markets for edible soybeans and other food grade corn products should be explored.

Horticulture

Successful vegetable growers associations and cooperatives should continue to be supported. Virtually all of the nursery stock in Kentucky is imported. Ways of opening the \$20 billion market for trees and ornamentals to Kentucky growers should be encouraged.

Other opportunities

Bio-diesel production, manufacturing renewable fuel from vegetable oils or recycled restaurant grease, should be explored. City, state and county fleets could provide demand for a pilot bio-diesel project.

MARKETING AND MARKET DEVELOPMENT – PRIORITY #1

The term “marketing” means different things to different people, nonetheless there was broad agreement among participants in the long-term planning process that marketing should be a key component of any plan. The goal of marketing is product image – the creation of a trusted brand name that commands respect and a premium in the marketplace.

Marketing is also delivering products that meet consumer needs. Feedlots want a pot load of like sized cattle. Supermarkets and vegetable wholesalers want boxes of washed and chilled USDA # 1 produce. Restaurants want the prime cut of meat.

Marketing is exploring all possible niches when developing a new product, using existing infrastructure to test new products, and finding value added uses for secondary products. The farmer who sells her tenderloin to the country club needs a market for hamburger.

The Commonwealth has a valuable asset in its rural landscape. The best way to take advantage of this asset is to preserve it as a working model of itself – as a self-sustaining rural economy. History is a guide. We should aim high. Kentucky’s rural economy should have a wholesome image. We should align ourselves with healthy lifestyle trends. Clean and Green – A Human Scale – Authenticity – Food Purity - Craftsmanship should be our watchwords.

A coordinated effort is required to build the market infrastructure needed to support this image with products. The creation of county, regional and state markets is an important first step in this direction.

The Kentucky Department of Agriculture has begun a state branding campaign and a “Buy Kentucky” program. Those campaigns should be coordinated with the private sector and other state offices. The creation of a quality assurance program for Kentucky agricultural products, with a state seal of approval guaranteeing that products were as advertised, would add value to Kentucky’s brand and qualify our products for industries with strict product tracking requirements.

Our rural countryside is a fast appreciating asset as suburbs and strip malls claim chunks of farmland. We can preserve this asset with profitable working farms. In the knowledge-driven economy of the twenty first century, the knowledge worker may not be tied to

a geographical location. If Kentucky is an attractive place, we will have a leg up in recruiting these knowledge industries.

Efforts to Develop Markets Have Taken Several Forms

In response to demand from producers at the county level, the ADB approved a series of state model programs aimed at allowing individual farmers to compete for diversification grants and addressing the need to upgrade production quality. The need to create a market for this production was clear at local, county and state meetings.

The Purchase Area Aquaculture Cooperative (PAAC) in Farmington is an effort in that direction. Graves County is on the peninsula formed by the Ohio, the Tennessee and the Mississippi Rivers. There is ample water to grow catfish in the Purchase.

PAAC was awarded an ADB grant to build a processing plant and to add freezing capacity in order to compete in the national market for frozen fish. The co-op has developed a profitable market for fresh fish, but price competition from long established suppliers in Mississippi and from Vietnamese imports has forced the frozen fish business to operate at a loss. This illustrates the difficulty of competing in the global market.

BEPA is a small Christian County produce wholesaler operated by a young farmer who was squeezed out of tobacco when he couldn't find quota to lease. He went into the sweet corn business and was selling it successfully on the internet, but he was unwilling to take the price offered for his remainders at the Fairfield Cooperative Market. In response, BEPA secured a fresh market with some local independent grocers, opened a vegetable stand on Ft. Campbell Boulevard in Hopkinsville and began competing for produce on the Fairfield Market with the brokers from Nashville and Louisville. BEPA was given a Christian County matching grant for another refrigerated truck and a forklift to expand to meet new contracts.

Danny Townsend, a sorghum maker with 40 years experience, leads the Appalachian Sweet Sorghum Marketing Cooperative, Inc., of Jeffersonville, Kentucky. The co-op received an ADB grant for planting, harvest and labeling equipment to meet expanded demand and bar code requirements from Kroger.

Other efforts to create and strengthen farmer market groups have included vegetable and nursery cooperatives. The Kentucky Center for Cooperative Development was funded to help new cooperatives. Tying these fledgling cooperatives to a central database would allow marketing efforts to be more closely monitored.

Projects under review include farm market showcases in Louisville, a marketing center and business incubator in Northern Kentucky, a farm center in Bath County, an agricultural complement to the new crafts showcase at Berea, and other regional marketing centers. The wine industry has proposals for supporting new grape production.

New Initiatives

The creation of a market in hunting rights would require liability legislation and a registry and inspection system. This could provide significant income to state farmers while reducing the state's excess deer population and should be explored in coordination with state Fish and Wildlife authorities.

The possibility of encouraging state funded institutions such as school systems, state parks, prisons and other state agencies to give preference to Kentucky products should be explored by the General Assembly in conjunction with the development of quality suppliers for these markets. Providing access to such publicly funded markets can also serve to prepare producers to enter other private markets.

Building Kentucky's Agriculture Based Businesses

Agriculture based business, agri-business, is crucial to the development of sustainable agriculture in the state. Kentucky owned companies such as F.B. Purnell Sausage Co., Kerns Kitchen, Torbitt and Castleman, Buckner, Gethsemani Farms, Moonlite Barbecue Inn, Southern Belle Dairy, Dippindots, Inc., Ellis Popcorn, Hudson Brothers, Griffin Pie and Laura's Lean Beef in food processing; wood products companies like McCammish Manufacturing Co. and the Freeman Corp.; and processors like Owensboro Grain Edible Oils, Inc. and Weisenberger Mills add the most value to agriculture products.

We should look first to existing agri-business in the state. These businesses should be surveyed to ascertain possible areas for expansion and ways to increase the use of Kentucky products.

Existing incentive programs are based on job creation, job retention and expansion. These incentives should be modified to give increased weight to the use of Kentucky agricultural products by existing and new businesses.

In addition to helping established businesses, the state should be actively involved in recruiting and developing new agriculture based businesses provided these businesses meet environmental requirements, provide innovative profit-sharing plans for farmers and fair labor conditions for employees.

Marketing Requirements and Feasibility Studies

A number of feasibility studies have already been undertaken. Some states have programs Kentucky could emulate; others have made mistakes we would do well not to repeat. Rather than recreate these studies for each new wave of agricultural development projects, an online catalogue of these resources should be created and maintained. Where there are gaps in this knowledge or questions unique to specific projects, the Governor's Office of Agricultural Policy has resources to commission studies.

Directions

Value added markets demand a reliable supply and a predictable quality. The Kentucky agricultural community's record in meeting these demands varies from one commodity to another. The Thoroughbred horse industry more than meets this test as the standard against which the world market is measured. Efforts to market commercial vegetables have had mixed results.

Kentucky feeder calves are gaining reputation in response to 20 years of herd improvement initiatives. New marketing methods allow cattlemen to capture the added value of providing uniform load lots to the buyer. The state is positioned to be a dominant player in the feeder cattle market.

A study of the feasibility of locating a feedlot industry in Kentucky (1996 Senechal, Jorgenson, Hale & Company, Inc.) suggested that the minimum economically feasible lot size was approximately 30,000 head. Our muddy winters and relatively high cost of feed put us at a competitive disadvantage according to the study.

Likewise the ability of the state to support a large-scale beef slaughter facility or cow kill plant has yet to be demonstrated. Because Kentucky has the largest cow herd in the east, the existing market for cull cows is strong.

The recent experience of North Carolina suggests that the effluent problems associated with large-scale confinement feeding operations can overwhelm a state's eco-system. The drainage patterns of the underlying strata should be mapped before approving slaughterhouse locations, especially in karst regions. The employment problems associated with large-scale animal processors should be considered before recruiting such plants.

The poultry industry is concentrated in South Central and Western Kentucky. Poultry contributes more than \$300,000,000 in gross income to Kentucky agriculture. Expansion should be based on farmer demand and weighed against company labor, environmental records, and farmer profitability.

The demand from individual livestock producers for small scale processing is increasing as markets open for farm-raised beef, chickens, hogs, sheep and goats. Expanding existing facilities to meet this demand seems to hold the most promise in the short to medium term.

FINANCING THE FUTURE: IMPROVING ACCESS TO CAPITAL

Access to capital was identified as crucial to the support of agricultural entrepreneurship. Typically farm production credit is readily available, while capital for value-added enterprises has been subject to high interest rates and strict covenants making it unavailable to any but sophisticated borrowers. One of the goals of the Agricultural Development Board is to work with lending institutions and farmers to increase the access to capital by strengthening existing programs and developing new ones.

There exist within the lending community a number of sources of funds for various agricultural projects, both production and processing. There appears to be adequate capital throughout all areas of the Commonwealth. Preparing the prospective borrower to access these funding sources may be all that is required to answer the need for traditional agricultural capital.

New agricultural ventures have more limited options because of the unfamiliarity with new ventures by the lending community. Sources of equity capital exist, but are difficult to access in Kentucky even for non-agricultural projects.

The Agricultural Development Board has seen a number of creative ideas. Ideas, however, translate into viable businesses with difficulty. Some of these were sophisticated and required a large capital investment, others showed promise for added value with a minimal investment. The difficulty often lies in the ability of the producer to execute the business plan, if in fact a business plan even exists. To address this need, the Agricultural Development Board has entered into an agreement with the Kentucky Small Business Development Center that is cooperating with extension agents to offer business planning courses.

In order for a farm business to determine its profitability, the farmer needs accurate financial information. In its Model Agricultural Diversification Program, the ADB has agreed to underwrite 50% of the cost of the Farm Business Analysis program offered through the University of Kentucky's Extension service. Continued support for producer participation in the Farm Business Analysis program should be encouraged and opportunities explored through county programs for making the service available to more producers.

Currently within the state there are a number of micro-lending agencies working with very small businesses, providing assistance in business development, and issuing loans of less than \$35,000. Funds are provided through the Small Business administration (SBA), and include dollars both for loans and technical assistance. The technical assistance financing is based on the amount of outstanding loans (typically 20% of the portfolio annually), thus allowing for continued assistance after the loan is made.

SBA requires a match of 20% to establish a loan loss reserve in the micro-loan company. Regional micro-lending agencies offer low-cost capital, localized technical assistance, and leveraged federal funds. Agricultural Development Funds should be set aside to encourage the development of agricultural lending programs among these micro-lenders.

Providing Adequate Capital

The Kentucky General Assembly created the Kentucky Agricultural Finance Corporation (KAFC) in 1984 to address the unique financing needs of agriculture. It is currently inactive. This agency should be restructured to provide capital for agricultural diversification and infrastructure projects.

KRS 247.940 – 247.978 set the framework for the Kentucky Agricultural Finance Corporation. According to legislative findings set forth in 247.940 (2) a reason for the establishment of KAFC was the recognition that "...private enterprise and investment have not been able to produce without assistance, the capital necessary to permit the small, family farm operators to continue to compete successfully in agricultural enterprises." Included in the findings was the charge that KAFC would "promote new agricultural ventures."

As established in KRS, KAFC serves principally as a lender, providing either direct loans or loan guaranties. The organization has the ability to raise capital through issuance of revenue bonds, including the issuance of revenue bonds as allowed under KRS 103. Certain requirements in the act are intended to follow those in the Internal Revenue Code to permit the issuance of Agricultural Bonds for first-time farmers. The statute has a fairly broad definition of agriculture that includes diversification and alternative crop production. No specific mention is made of value-added processing. Clearly the value-added approach will allow for increased income to Kentucky producers.

The definition for "first-time farmers" must conform to the requirements of the Internal Revenue Code, in order to maintain the agricultural bond program allowed by that law. Provisions should be made to raise permissible income levels to take into account off-farm employment that enhances farmer income or provides health care and other benefits that otherwise would not be available to the farm family.

While the statute does contemplate assistance to any legally formed entity, the definition prevents assistance to newly formed ventures in that income must be generated in the year

before the assistance is provided. Thus any new entity, for example one created for the purpose of value-added processing, would be ineligible for assistance under the current law.

Forms of Financial Assistance

Linked Deposit Loan Program

The KAFC statute is sufficiently broad to allow for direct loans, loans through private lenders and loan guaranties provided by KAFC. A similar loan-to-lender program currently exists through the state's Linked Deposit Investment Program. As set forth in KRS 41.600 - 41.625, funds from the State Treasurer's unclaimed and abandoned property program are invested in financial institutions (including members of the farm credit system) at interest rates equal to the Prime Rate as published in the Wall Street Journal on the first day of each month, less 4% percent (minimum rate no less than 2%). The bank then makes a loan at the Prime Rate (minimum interest rate of 5%). At the time of this writing, with the Prime Rate at 5.5%, the bank spread is 3.5%, the state receiving 2% for its investment.

Currently funds are available for both small businesses and agri-businesses, with a maximum loan amount of \$100,000 and a maximum maturity of seven years. The program is not a guaranty, but rather an investment in a bank. The credit decision when made by the lender is likely to be tied to risk aversion, since the ultimate responsibility for repayment of the investment to the Commonwealth lies with the financial institution.

The Kentucky Economic Development Cabinet (KEDC) administers the small business program, while the Kentucky Department of Agriculture administers the agribusiness portion of the program. In the area of agribusiness lending, the program has had modest success. It generally has been a program for higher quality borrowers, given the obligation of the lender to repay the investment.

The value-added lending function now administered by the Kentucky Department of Agriculture should be moved to KAFC and minor changes made to the eligibility requirements. Specifically the definition of "agribusiness" includes persons engaged in agricultural endeavors (not defined) but requires at least one-half of annual gross income be derived from farming (gross earnings not to exceed \$1 million per year). Given the nature of family farm income, often with one spouse working off-farm, this 50% of income derived on farm may be difficult to attain, and should be modified. Discussion also should focus on definition of agriculture endeavor, with a goal of conforming definitions in both the KAFC and the Linked Deposit legislation.

Direct Loans, Loan Purchases and Loan Guaranties:

Currently KAFC has a direct loan fund. There was only \$500,000 in this fund at the beginning of 2002. As noted earlier KAFC currently has authority in its enabling legislation to issue bonds for direct loans, loan purchases from commercial lenders, and loan guaranties. Agricultural Development Funds could be used to capitalize the loan fund directly and could serve as leverage in obtaining other funds for the loan pool, for example, funds from federal agencies that become available from time to time for agricultural endeavors.

KAFC has the authority to provide below market financing by using tax-exempt financing for first time farmers in accordance with rules set out in the Industrial Revenue Code. KAFC also has the authority to issue bonds outside of the Internal Revenue Code requirements at

non-tax-exempt market rates. This kind of debt issuance could be used to establish a larger revolving loan fund immediately, rather than to build up a loan fund with money set aside from Phase 1 dollars. The fund would require an annual set-aside of Agricultural Development Funds as the primary source of repayment for the bond debt service. This would allow the revolving loan fund to build up as repayments of principal and interest were made back to the fund.

Under this arrangement Agricultural Development funds could be used to service debt over the life of the bond issue, but the proceeds of the bond issue would be set aside exclusively for direct lending at rates, conceivably below market, established by the KAFC board.

Since the bonds would be repaid with funds exclusive of the repayment from the individual loans, financings could be made available at rates different from the rates charged for the bond issue itself, thus providing additional flexibility to KAFC in structuring financings for farm-based and other agricultural businesses.

KAFC would continue to serve as issuer of financings for "first-time farmers" as set out in the Internal Revenue Code. In this case the agency would be a conduit for the financing and the underlying credit would be the assets being financed. Specifically there would be no liability for repayment by KAFC, and because the bonds could be issued as tax-exempt instruments, the borrowers would obtain below market financing for sums potentially greater than could be obtained through the agency's direct loan program.

The funds would be available for all agricultural borrowers, either as direct loans or as purchases of loans from commercial lenders, with the corresponding interest rate savings passed on to the borrower. Whenever possible funds should be used to complement funds from private sources.

The question should be asked whether KAFC should be making direct production loans, when the private sector is better suited for such activity. The private lenders are closer to the borrowers and thus have better ability to oversee the collateral being offered for loans. Indirect lending from KAFC likely is a better approach here, and in this instance a loan-to-lender program would be the more appropriate form of assistance, particularly if it could be tied to the Linked Deposit program. The borrower still would be able to benefit from below market interest rates, while program administration costs would be reduced.

Some Phase 1 funds should be set aside exclusively for the purpose of loan guaranties. Such a program could function to establish, with participating lenders, a loan loss reserve into which KAFC would contribute some amount (perhaps less than 3% of the total loan), with comparable amounts being contributed by the lender and borrower. The loan loss reserve pool would build up as additional loans were made provided the default rate was kept to a minimum.

KAFC should explore lending part of the percentage of a loan not guaranteed through existing federal guaranty programs. The U.S. Small Business Administration and USDA's Rural Development Administration have programs that will guarantee a certain portion of a private lender's loan. Typically in the event of a default the lender goes to the federal agency and collects the guaranteed portion of the loan. The federal agency then allows for the liquidation of assets to collect the remainder of the loan. If there is a shortfall below the guaranteed portion, the federal agency absorbs the loss. The non-guaranteed portion is the lender's responsibility. A restructured KAFC could enhance the amount of guaranty by participating in this portion of the

loan and agreeing to share equally with the bank in any losses or recoveries that resulted from liquidation.

Venture Capital and Near Equity Type Programs:

A separate pool of Agricultural Development Funds should be set aside to serve as equity or near-equity in agricultural ventures. An example of a near-equity participation might include a loan convertible to ownership based upon the occurrence of certain events. All equity-type financing should be limited to innovative agricultural diversification, or new agricultural technologies with possibilities for significant return on investment, which would not otherwise meet the security requirements for traditional lending. It should include agricultural research and development targeted by the Kentucky Innovation Commission, but based upon board approval could include other ventures as well. Any equity positions taken by a venture capital fund could return to the fund for reinvestment in fund-related activity.

FINANCIAL INCENTIVES FOR ENVIRONMENTAL STEWARDSHIP

The Commonwealth's long-term plan for agriculture recognizes the state's rural landscape and environmental quality as valuable assets in marketing both Kentucky and its agricultural products. To preserve this asset, we must re-evaluate farm management techniques for long-term sustainability. Certified sustainable programs and incentives must be encouraged. Kentucky should embrace national and international programs by rewarding farmers and state companies who follow approved practices and pressuring those who do not.

Regulations requiring farmers to limit livestock access to waterways and to plant riparian buffer zones are contemplated under the Agriculture Water Quality Act. The Kentucky Soil Erosion and Water Quality Cost Share Program was established by the 1994 General Assembly to assist Kentucky producers in meeting the requirements of this act. During the 2000 session of the General Assembly, \$18 million from the Agricultural Development Fund was appropriated to assist Kentucky's landowners through this program. This funding should be continued.

We have historically underestimated the economic, ecological, social and cultural values of forests. With 92 percent of these assets in private hands, primarily in tracts of less than 40 acres per landowner, fragmentation has made coordinated management difficult. The 1998 Forest Conservation Act was a step toward addressing this need by providing training for loggers, however, the need for landowner technical assistance has been largely unmet.

The Forest stewardship Incentive Fund was established by the General Assembly in 1998 to serve as a way to provide financial assistance to landowners for stewardship practices. This program has never been fully funded.

Symbiotic crops such as mushrooms and ginseng can provide rewards to individual woodlot owners for following sustainable practices. Forestry officials should be trained to recognize the value of symbiotic crops in woodlots.

The disposal of dead animals is an important element in environmental health. The Kentucky Department of Agriculture has completed a study of the removal of fallen livestock and pets.

Farmland Preservation Programs

Farmland preservation programs such as the purchase or donation of development rights can be a valuable tool for preserving agricultural assets, particularly those near urban areas. Currently the Kentucky Department of Agriculture's (Purchase of Agriculture Conservation Easements (PACE) program and Fayette County's Purchase Development Rights (PDR) operate to preserve threatened farmland. These programs require coordination with county planning and zoning boards and combine government planning and market based incentives. The governor's Smart Growth Initiative is also beginning to address this need.

FARM FAMILY EDUCATION AND COMPUTER LITERACY

Priority should be given to developing a state-wide on-line library of agricultural development resources and conducting farm business accounting and analysis programs. County Extension offices should be encouraged to expand county-based programs aimed at improving farm family internet access, and developing farmer-to-farmer training programs. Programs that focus on the needs of farm families in the areas of financial planning, personal development and basic computer literacy should be made more accessible.

Kentucky farm families are in need of better access to GED programs, two-year and four-year degree programs and vocational training. The Workforce Development Cabinet, Kentucky Community and Technical College System (KCTCS), Kentucky Virtual University, Land Grant and Regional Universities, and the division of Secondary Vocational Education can provide this access through short winter courses and night courses to better match the time available to farmers.

Information technology is an important component of the long-term plan. In order to participate in the proposed state electronic marketing system, farmers will need access to a computer and to be able to enter and receive product information.

The demands of product tracking placed on agriculture by increasingly strict food safety requirements will necessitate a barcode system for produce. Both the five-state beef cattle initiative and the statewide agriculture marketing system will require barcodes on products for sale. Farmers should be assisted to meet the demands of this new technology.

SUPPORTING LOCAL LEADERSHIP

Leadership Development

Kentucky's rural communities are in a state of transition. The decline in the economic significance of burley tobacco combined with the risk and uncertainty associated with agriculture in general has placed added strain on the rural economy. Funds should be available in each extension area of the state to organize community-based leadership programs that emphasize skills related to farm-based business development.

County Agricultural Council Support

County Agricultural Development Councils have assumed substantial responsibility at the local level for the future of Kentucky agriculture. Limited administrative funds have been a

handicap to the councils. A mechanism should be established to allow use of county Phase 1 funds for expenses associated with Council functions including:

6. Field days, training meetings, workshops or other events linked to Agricultural Development Board projects.
7. Regular meetings of the Council (including meal costs for members).
8. Community planning functions sponsored or co-sponsored by the Council.
9. Printing, publicity and information dissemination related to Agricultural Development Board projects and programs.
10. Communications and information technology costs related to the administration of the Council and its functions.

Enhancing the Extension Network

The Kentucky Cooperative Extension Service has been assigned new roles and assumed broad responsibilities under the Commonwealth's agricultural development initiatives. The county agents' newly mandated functions include commitments to planning, implementation and evaluation of projects and programs of county agricultural development councils and the Agricultural Development Board. These functions spill over into the broader issues of community economic development. State extension leadership and specialists are assuming responsibility for providing agents with the support required to meet these new challenges.

While the growth and viability of rural communities is ultimately dependent upon the ability and initiative of farm families and rural leaders, the extension system serves as a vital element of the infrastructure required to foster their success. Extension needs appropriate support for this mission in the future.

Enhanced training and continuing education for county personnel are the keys to improved job performance and program delivery. Clear standards for continuing education should be established. Extensions' communications and internet technology infrastructure should be improved to better support both distance learning for agents and statewide access to educational programs. Kentucky agents hold fewer Master's degrees than their counterparts in other states. Master's programs should be tailored to the extension agent's role. Public administration, community development, agricultural education, and business administration programs could be tailored for extension agents.

In order to recruit and train the best agents, salaries should be upgraded. Kentucky's extension agent salaries rank 47th in the nation, last among the University of Kentucky's benchmark institutions, and last in the Southern region. Salary issues will need to be addressed through recurring fund sources. If long term funding is not available, consideration should be given to supporting an achievement and professional development-linked incentive program. This program should reward agents for achieving specific professional development and continuing education standards.

Kentucky's ability to seize opportunities depends directly on the awareness and responsiveness of local leaders to the issues confronting rural communities. Nurturing local leadership, adequately supporting County Agricultural Development Councils, and investing in the enhancement of the Extension Service network will better position rural leaders to create new opportunities in their communities.

RESEARCH AND DEVELOPMENT

Bio-technology, genetic engineering and molecular farming may hold promise for adapting agricultural crops and livestock to new purposes. Plants and animals may be engineered to produce a variety of valuable biological molecules ranging from vaccines to biodegradable plastics. The opportunities and risks presented by this technology should be carefully weighed.

While the commercial progress is exciting, molecular farming is still an emerging industry. As Kentucky seeks to take advantage of opportunities presented by molecular farming, it is imperative that policy makers recognize widespread concerns about the implications of these technologies. Issues raised by farmers, consumers and governments in Mexico, Canada, Brazil and Europe illustrate the international debate about bio-technology. Concern about human health and safety issues have arisen in European and Japanese markets. Food labeling, segregation of traditional and genetically altered crops, and environmental impacts are major issues in a number of countries.

Often purveyors of new technology seek to minimize ecological risks and maximize profit potential. The role of molecular farming in Kentucky should receive further attention, discussion and deliberation in open meetings. The economic and ecological stakes in agriculture require that the potential long and short-term risks and benefits of this technology be fully deliberated. Representatives of industry, farmers, researchers, ecologists, consumer groups, regulatory agencies, and other interested parties should be included in such deliberations. One specific topic of public deliberation should be how to assure material benefit for farmers through novel models of intellectual property ownership and commercialization.

Large Scale Biology Corporation (LSB) operates a facility at Owensboro that has genetically engineered the tobacco mosaic virus to produce a vaccine that prevents recurrence of non-Hodgkin's lymphoma, a cancer of the lymph system. LSB is different from other biotech companies that engineer animals and plants into production systems. LSB has rejected permanent genetic modification of plants and animals. Instead the company inserts genes that make a therapeutic protein into the tobacco mosaic virus. LSB then infects tobacco with the transgenic virus and gets the plant to serve as a temporary factory to produce the desired molecule. [Source: *Scientific American*, October 2001]

Ways to move the efforts of multi-disciplinary research projects like the University of Kentucky's New Crops Opportunities Center, Kentucky State University's small farm research and other university research projects into production agriculture should be explored. Applied research efforts on existing Kentucky farm products should continue to be a high priority.

Conclusion and Summary of Recommendations from *Cultivating Rural Prosperity*

The aim of the plan is to preserve and enhance the social fabric of rural Kentucky while building a sustainable economic base rooted in local communities and maintaining



environmental integrity. The Commonwealth has a valuable asset in its rural landscape. The best way to take advantage of this asset is to preserve it as a working model of itself – as a self-sustaining rural economy. The three distinct rural areas of Eastern, Central and Western Kentucky should focus on those farm products most suitable for their local environment.

The primary recommendations of this plan include:

- ~~///~~ Creating a comprehensive local, regional and state marketing system for Kentucky farm products
- ~~///~~ Creating a system to encourage a variety of forms of capital investment in agricultural enterprises
- ~~///~~ Providing financial incentives for environmental stewardship measures such as the Soil Erosion and Water Quality cost-share program, implementation of best-management practices in timber stands, and farmland preservation efforts
- ~~///~~ Strengthening and improving the accessibility of education and training programs tailored specifically for the needs of farm families
- ~~///~~ Creating programs to develop local leadership, support county agricultural development councils, and enhance the Cooperative Extension Service network
- ~~///~~ Maintaining strong commitments to applied research in existing farm product areas, and exploring the viability of high value markets in non-traditional areas.

Specific recommendations within each of the above priority areas include:

- ~~///~~ Instituting a state certification program that will allow certified agricultural producers access to state markets like parks and prisons by providing a quality assured product
- ~~///~~ Expanding a state database to include all certified products, including meat and poultry
- ~~///~~ Developing a county-based inventory of timber resources utilizing global positioning technology and catalogued in a state database
- ~~///~~ Providing support for woodlot demonstration projects that include symbiotic crops like mushrooms and ginseng
- ~~///~~ Providing market venues for load lots of pre-conditioned livestock
- ~~///~~ Studying the costs and benefits of a state system to connect the major trails in the state as part of efforts to develop agri-tourism
- ~~///~~ Coordinating with the state Economic Development Cabinet to find clean industry to supplement farm incomes
- ~~///~~ Urging farmers to invest payments from the National Tobacco Growers Settlement Trust (Phase II) in the diversification of their operations
- ~~///~~ Enhancing demonstration projects to promote rotational grazing, pasture renovation and soil building techniques
- ~~///~~ Investing in improved hay production and handling practices to open the market for horse hay to Kentucky farmers
- ~~///~~ Encouraging programs to raise the value of Kentucky beef cattle
- ~~///~~ Supporting and upgrading existing meat processors to open markets for farm-fresh livestock products
- ~~///~~ Expanding vegetable grower education programs to open commercial markets
- ~~///~~ Encouraging tobacco farmers to retrofit greenhouses to grow winter vegetables, flowers and bedding plants
- ~~///~~ Seeking markets for edible soybeans and food-grade corn products
- ~~///~~ Exploring the feasibility of renewable fuel production
- ~~///~~ Developing a market for hunting rights in cooperation with state Fish and Wildlife authorities

-  Building Kentucky's agriculture based businesses
-  Providing adequate capital through the coordination of existing and new programs such as the Agricultural Finance Corporation, Linked Deposit Loan program, direct loans, loan purchases, loan guaranties, venture capital and near-equity programs

This document is intended to be Kentucky's first comprehensive plan for agricultural and rural prosperity, the first step in a process that by its nature requires a strong long-term commitment. As such it raises a number of questions and presents a number of ideas that will need to be developed further if they are to be acted upon. The Agricultural Development Board and the Governor's Office of Agricultural Policy recognize a responsibility to provide a blueprint to aid in the development of this plan. The Agricultural Development Board in collaboration with county councils, agricultural organizations, farmers and interested citizens will annually review this plan. It is the intention of the Agricultural Development Board that this review process reflects the open and inclusive manner by which the plan was created. The staff of the Board will present a progress report on plan implementation annually.

Regular Business Meeting, January 18, 2002:

At 1:00PM Governor Patton, Chairman, called the meeting to order, and the secretary called the roll.

Members Present on January 18, 2002:

Governor Paul E. Patton, Chairman; Commissioner Billy Ray Smith, Vice Chairman; John-Mark Hack, Executive Director; Vickie Yates Brown; Daniel Case; Larry Clay; Susan Harkins; Wayne Hunt; Sam Lawson; Dean Scott Smith; Sam Moore; Willa Poynter; Eddie Sellers; and Smith Mitchell designee for Secretary Gene Strong.

Members Absent on January 18, 2002

Seth Conner; and Mike Slaughter.

Legislative Guests Present on January 18, 2002:

Representative Roger Thomas, Chairman, House Agriculture and Small Business Committee and HB611 Oversight Committee; Representative Adrian Arnold; Representative Carolyn Belcher; Representative Dwight Butler; Representative Mike Denham, Representative Tom McKee; and Representative Tommy Turner.

Others Present on January 18, 2002:

Carol Gundersen, and Martin Richards, Community Farm Alliance; Charles Miller and John Stevenson, Kentucky Cattlemen's Association; Hank Graddy, Sierra Club; Sharon Burton, The Farmer's Pride; and Hal Stopfel, Creative Public Relations.

Staff Present on January 18, 2002:

David Bratcher; Penny Cline; Gordon Duke; Sandra Gardner; DeVon Hankins; Jeff Harper; Rhodes Johnston; Kara Keeton; Bill McCloskey; Chauncey Morris; Jeff Mosley; Joel Neaveill; Lisa Thomas; Kim Tompkins; Angela Utterback; and Stephen Yates.

Notification of Media:

Governor Patton received confirmation from John-Mark Hack that a media release regarding the Agricultural Development Board (ADB) meeting was sent.

HB611 Oversight Committee:

Governor Patton welcomed the House members of the Agricultural Development Board's Legislative Oversight Committee, and asked ADB members to introduce themselves.

Each of the legislative members introduced themselves and addressed the ADB. All of the Representatives commended the board for their excellent work and recognized the dedication and leadership exhibited by each member especially Governor Patton.

Representative Roger Thomas, Chairman of the House Agriculture and Small Business Committee, primary sponsor of HB611, and Chairman of the HB611 Legislative Oversight Committee stated that the members of the ADB had persevered in the face of adversity and that agriculture in Kentucky had greatly benefited. Representative Thomas asked that the board consider more creativity in the grant process.

Representative Adrian Arnold asked that in addition to more creativity in the grant process that the ADB consider ways to assist the tenant farmers. He recognized the difficulty of the situation, but asked that the board investigate ways in which the tenant farmers might benefit.

Representative Tom McKee asked that the ADB continue creating model programs, and continue funding for those already in existence.

Representative Mike Denham stated that he too was concerned with the plight of the tenant farmers.

Representative Dwight Butler asked that the ADB focus on assisting the tenant farmers.

Representative Carolyn Belcher stated that she was extremely proud of the diversity of knowledge and expertise in the makeup of the ADB.

Representative Tommy Turner thanked Governor Patton for his dedication to agriculture and for setting aside fifty percent of the tobacco settlement funds for agricultural programs. He also thanked John-Mark Hack for his assistance throughout the year.

Representative Thomas recognized the ADB staff and commended them for their excellent work and the assistance provided to constituents and members of the legislature. He assured Governor Patton that the House Agriculture and Small Business members would do their part to protect the fund and would encourage both majority and minority leadership to leave the fund intact.

Governor Patton thanked the members of the Oversight Committee for attending. He restated the importance of the Agricultural Development Fund and his commitment to agriculture. Governor Patton stated that in ten to fifteen years the success of this program would be a legacy of this administration. Governor Patton stated that he was very proud of his staff in the Governor's Office of Agricultural Policy. Governor Patton stated that he did not recommend any legislative changes to HB611.

Governor Patton apologized for being overscheduled and excused himself from the meeting.

Susan Harkins asked the members of the Legislative Oversight Committee if they believed that direct, cash payments to the tenant farmers was a way to accomplish the goal of helping tenant farmers. The members responded in the negative. Ms Harkins then asked if any of them had

suggestions as to what the ADB could do to assist tenant farmers. Representative Arnold stated that training for the tenant farmers could possibly help. Representative McKee said that training the tenant farmers to be more efficient tobacco farmers would be beneficial.

Representative Thomas thanked the ADB for the opportunity to meet together. He stated that he is pleased with the level of cooperation between the ADB, the General Assembly, and the County Councils. He asked that as agricultural leaders that the ADB members continue to encourage cooperation.

Minutes of December 21, 2001 Meeting:

The minutes were approved as presented.

Executive Director's Report:

John-Mark Hack, Executive Director, reviewed the day's agenda.

Mr. Hack reminded the members of the Kentucky Opportunity Market Place to be held on January 28 & 29. The County Council Leadership meeting will be held on January 28, at the Kentucky History Center. The Educational Tracts and Legislative reception will be held on January 29, at the Farnham Dudgeon Civic Center. He encouraged ADB members to participate in as many events as possible.

Susan Harkins asked if the County Council Leadership discussion should consist of a panel of board members. John-Mark Hack stated that because of the number of hours that board members dedicated to the ADB, he was hesitant to request additional commitment from them; however, any time that the members could give would be greatly appreciated.

Referral of Project Proposals:

Danny Case moved with a second from Vickie Yates Brown that projects numbered 886-20027 be referred to Project Review Committees. The motion passed without objection.

Project Review Committees' Reports:

Sam Lawson & Vickie Yates Brown presented the Committees' reports. The Review Committees met on January 11, and made the following recommendations:

Approved Programs:

Sam Lawson stated that the Committees' recommended funding for the following Programs:

Agricultural Diversification Program

<u>App#</u>	<u>County</u>	<u>Project Name</u>	<u>County Funds</u>	<u>Description</u>
857	Daviess	Green River Area Development District	\$ 100,000.00	Diversification

886	Lewis	Buffalo Trace ADD	\$ 70,000.00	Diversification
884	Mason	Mason County Agricultural Advancement Council	\$ 150,000.00	Diversification
802	Wayne	Cumberland Farm Products	\$ 60,000.00	Diversification
837	Wayne	Wayne County Pork Producers	\$ 45,000.00	Diversification
5			\$ 425,000.00	Diversification Total

Fallen Animal Program

<u>App #</u>	County	Project Name	County Funds	Description
847	Pulaski	Pulaski County Fiscal Court	\$ 19,852.00	Fallen Animal
1			\$ 19,852.00	Fallen Animal Total

Forage Improvement Program

<u>App #</u>	County	Project Name	County Funds	Description
844	Bath	Bath County Conservation District	\$ 201,500.00	Forage
846	Boone	Northern Ky Cattle Association	\$ 80,000.00	Forage
868	Breckinridge	Amendment for Beef Improvement Council-Forage	\$ 100,000.00	Forage
848	Clinton	Clinton County Soil Conservation District	\$ 48,000.00	Forage
858	Jackson	Jackson County Conservation District	\$ 25,980.00	Forage
878	Kenton	Northern Kentucky Cattle Association	\$ 31,000.00	Forage
797	Lincoln	Lincoln County Farm Bureau	\$ 150,000.00	Forage
20005	Logan	Logan County Conservation District	\$ 8,500.00	Forage
20003	Monroe	Monroe County Conservation District	\$ 13,000.00	Forage
9			\$ 657,980.00	Forage Total

Genetic Improvement Program

<u>App #</u>	County	Project Name	County Funds	Description
869	Breckinridge	Amendment for Beef Improvement Council-Genetic Improvement	\$ 80,000.00	Genetic Improvement
20002	Monroe	Monroe Co. Cattleman's Association	\$ 36,000.00	Genetic Improvement
803	Wayne	Tri-county Beef Marketing Assoc.	\$ 15,000.00	Genetic Improvement
3			\$ 131,000.00	Genetic Improvement Total

Goat Diversification Program

<u>App #</u>	County	Project Name	County Funds	Description
856	Elliott	Eastern Kentucky Hills Goat Association	\$ 30,000.00	Goat Diversification
851	Grayson	Twin Lakes Meat Goat Association	\$ 65,000.00	Goat Diversification
782	Jessamine	Jessamine Co. Beef Cattle Assoc.-Goat Producers	\$ 16,500.00	Goat Diversification
887	Lewis	Buffalo Trace ADD	\$ 30,000.00	Goat Diversification
885	Mason	Mason County Agricultural Advancement Council	\$ 15,000.00	Goat Diversification
790	Mercer	Fort Harrod Goat Association	\$ 76,000.00	Goat Diversification
822	Owen	Owen County Farm Bureau Ag. Diversification Subcommittee	\$ 53,000.00	Goat Diversification
855	Rowan	Eastern KY Hills Goat Association	\$ 30,000.00	Goat Diversification
859	Washington	Washington County Meat Goat Producers	\$ 14,000.00	Goat Diversification
804	Wayne	Wayne County Pork Producers	\$ 10,000.00	Goat Diversification
10			\$ 339,500.00	Goat Diversification Total

Cattle Handling Program

<u>App #</u>	County	Project Name	County Funds	Description
845	Boone	Northern KY Cattle Association	\$ 40,000.00	Cattle Handling
827	Bracken	Bracken County Agricultural Advancement Council, Inc	\$ 105,000.00	Cattle Handling
867	Breckinridge	Amendment for Beef Improvement Council-Handling	\$ 150,000.00	Cattle Handling
879	Kenton	Northern Kentucky Cattle Association	\$ 21,000.00	Cattle Handling
820	Lewis	Buffalo Trace ADD	\$ 26,250.00	Cattle Handling
20004	Monroe	Monroe County Conservation District	\$ 32,000.00	Cattle Handling
801	Wayne	Tri-County Beef marketing Association	\$ 25,000.00	Cattle Handling
7			\$ 399,250.00	Cattle Handling Total

Sam Lawson moved with a second from Danny Case that the board adopt the Committees' recommendation. The motion passed without objection.

Projects Recommended for Funding:

788 Jessamine County FFA Alumni Association

State Funds: \$0.00 County Funds: \$12,500.00

Ms. Brown moved with a second from Eddie Sellers that the Board adopt the committee's recommendation. The motion passed without objection.

792 Spencer County Board of Education

State Funds: \$0.00 County Funds: \$50,000.00

Ms. Brown moved with a second from Danny Case that the Board adopt the Committee's recommendation. The motion passed without objection.

796 Meade County Grain Grower's Assoc.

State Funds: \$0.00 County Funds: \$42,000.00

Ms. Brown moved with a second from Sam Moore that the Board adopt the Committee's recommendation. The motion passed without objection.

691 The Forest School, Inc.

State Funds: \$94,306.50 County Funds: \$0.00

Mr. Lawson moved with a second from Wayne Hunt that the Board adopt the Committee's recommendation. The motion passed without objection.

849 Grayson Co. Cattlemen Association

State Funds: \$0.00 County Funds: \$2,500.00

Mr. Lawson moved with a second from Larry Clay that the Board adopt the Committee's recommendation. The motion passed without objection.

854 East KY Beef Cattle Council

State Funds: \$0.00 County Funds: \$250.00

Mr. Lawson moved with a second from Eddie Sellers that the Board adopt the Committee's recommendation. The motion passed without objection.

Additional Board Actions:

Agricultural Diversification Plan Amendment – Added Enterprises:

The Bowling Green Area Chamber of Commerce requested that **squab, quail and other game birds** be added to Section E of the Small Animal Production section of the Agricultural Diversification Program.

Mr. Lawson moved with a second from Dean Smith that the board adopt the amendment. The motion passed without objection.

Agricultural Diversification Plan Amendment – Promotional and advertising materials:

The county agents from Allen, Daviess, Edmonson, Logan and Monroe counties have submitted written requests to expand cost share items to include expenses related to promotional and advertising materials.

Proposed Amendment

The proposed amendment would become part of each section of the Agricultural Diversification Program. Using **C. Pastured Poultry** as the example please review the following.

C. Pastured Poultry

Cost Share Items:

1. Commercial breeding stock
2. Feeders, waterers, brooders, poultry coops, nesting boxes.
3. Poultry netting and other temporary fencing
4. Grazing cages (field pens), rolling hen houses, skid mounted chicken houses
5. Fruit trees for poultry feed source
6. Egg processing and packaging equipment, including coolers and refrigerators
7. Other equipment essential to provide on-farm value-added processing
8. Refrigerated and non-refrigerated equipment (excluding motorized vehicles) for transporting product
9. Computer hardware and software to assist in performance record keeping and financial management
10. One half the cost of participation in the Kentucky Farm Business Management Program
11. One half the cost of membership in a producer-owned marketing cooperative
12. **Promotional and advertising materials not to exceed 10% or \$500 of total project and not to include products or services provided by Kentucky Department of Agriculture.**

Ms. Brown stated that #12 be changed to read “**Promotional and advertising materials up to 10% of the total project, but not to exceed \$500 and not to include products or services provided by Kentucky Department of Agriculture or other state programs**”.

The motion passed as amended.

Cattle Handling Facilities Amendment:

Monroe County Conservation District requested **livestock scales** be included as a cost share item under Handling Facilities and Equipment for Dairy Cattle in the state guidelines of the Cattle Handling Facilities Cost Share Program.

Sam Lawson moved with a second from Willa Poynter that the board adopt the amendment. The motion passed without objection.

Goat Diversification Program Amendment:

Buck Lease for the Improvement of the Goat Flock

Goal: To improve the genetics of Kentucky goat flocks through assistance in the lease of quality, healthy bucks.

Many Kentucky producers are new to goat production and may not currently have enough does to justify the expense of purchasing a high quality registered buck. Encouraging producers to utilize registered full blood males in the establishment of their herds will build a strong genetic base for new producers.

Cost Share Items

Bucks for lease should appear healthy, have required health papers, and be up to date on their CDT vaccinations. Bucks should be registered full bloods with permanent identification.

Prerequisites

Producer must have less than 25 does in order to participate in a lease program.

Producer should have an established relationship with a food animal veterinarian and develop a health and parasite security program (see attached sample). This will help promote long-term flock sustainability and minimize flock management problems for new producers.

Contracts should be signed between the lessor and the lessee to outline the length of the lease as well as the expected care of the buck during the lease. Contracts should also state the responsible party in the event of injury, illness or death of the buck.

Bucks will be cost shared on a 50-50 basis up to a maximum of \$250 per producer.

Funds will be disbursed on a reimbursement basis.

Sam Lawson stated that under the Cost Share Items, first sentence, the word should be changed to “must.”

Sam Lawson moved with a second from Wayne that the Board adopt the amendment. The motion passed without objection.

Kentucky Small Business Development Center

The Kentucky Small Business Development Center (KSBDC) network, consisting of thirteen office service centers across the state, will work with University of Kentucky Cooperative Extension Service (CES) and the Kentucky Center for Agricultural Development & Entrepreneurship (KCADE) to provide educational programs across the state to assist farmers with Business Plan development. KSBDC will coordinate with the assistance of the CES and KCADE in the presentation of three levels of workshops.

“Smart Steps to Smart Choices”, an introductory two-hour basic awareness-building workshop introduces resources and tools for future exploration and development.

An intermediate level workshop employs the text, *Management First and Primer - A Tool for Evaluating New Farm Enterprises* as part of a multiple-session seminar format that focuses on additional planning and resource identification. A series of successful entrepreneur case studies will be presented in addition to a series of evaluation tools to assess the suitability of an enterprise to a particular context.

The advanced program, “Tilling the Soil of Opportunity”, an NxLevel program, is a 10-12 week course that walks participants through the business planning process and culminates with the development of a detailed business plan. The NxLevel program is a nationally recognized business-planning curriculum. The NxLevel staff has certified eighteen KSBDC and CES staff members in Kentucky. This course is designed to expand the participant's skill in planning and developing a comprehensive plan for their venture and connect them with the local and state resources and expertise necessary to establish their business.

Sam Lawson clarified that this money has already been set aside. This action authorizes KCADE to expend the funds.

Sam Lawson moved with a second from Smith Mitchell that the Board authorize the expenditure of funds. The motion passed by voice vote.

Center for Cooperative Development Budget Amendment:

Jeff Mosley advised that the Center for Cooperative Development has submitted a budget change. The Center decreased their budget by \$64,000. The Center still has the match.

Danny Case moved with a second from Susan Harkins that the board approve the amendment. The motion passed by voice vote.

Sam Lawson advised that some individuals had inquired as to whether the board should have a qualifier on the model programs requiring that the recipients of the funds be a tobacco farmer.

20041KCADE Market Studies

State Funds:	\$0.00	County Funds:	\$0.00
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Sam Lawson moved with a second from Susan Harkins to approve the expenditure of up to \$150,000 in KCADE funds for the purpose of marketing analysis. The motion passed by voice vote.

20011 ADB Market Development

State Funds:	\$13,000,000.00	County Funds:	\$0.00
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Sam Lawson moved with a second from Vickie Yates Brown that the board earmark \$13,000,000 to establish a marketing infrastructure. The motion passed by voice vote.

Kentucky Agricultural Development Corporation:

RESOLUTION BY KENTUCKY AGRICULTURAL DEVELOPMENT BOARD January 18, 2002

WHEREAS, the Kentucky Agricultural Development Board is empowered by KRS 248.709(5) to develop a comprehensive Long-Term Plan for Agricultural Development within the Commonwealth of Kentucky; and,

WHEREAS, the Kentucky Agricultural Development Board on this date has by resolution adopted is Long-Term Plan for Agricultural Development; and,

WHEREAS, during the public hearing and preparation phases of the Long-Term Plan for Agricultural Development it was determined that there existed within the agricultural community of the Commonwealth a need for access to capital; and,

WHEREAS, the Long-Term Plan for Agricultural Development states as one of its primary recommendations the creation of a system to encourage private capital investment in agricultural enterprises; and,

WHEREAS, the Long-Term Plan for Agricultural Development recognizes that the Kentucky Agricultural Finance Corporation, as established by KRS 247.940 – 247.978, offers a mechanism by which capital for agricultural diversification and infrastructure can be provided throughout the Commonwealth; and,

WHEREAS, the Long-Term Plan for Agricultural Development recommends that the Kentucky Agricultural Finance Corporation, though currently inactive, be reactivated.

NOW THEREFORE BE IT RESOLVED BY THE KENTUCKY AGRICULTURAL DEVELOPMENT BOARD, that the Kentucky Agricultural Finance Corporation be reactivated; and,

BE IT FURTHER RESOLVED, that the Governor of the Commonwealth of Kentucky and the Commissioner of Agriculture of the Commonwealth of Kentucky endeavor to reactivate the Kentucky Agricultural Finance Corporation and that the Governor of the Commonwealth appoint new board members to the Kentucky Agricultural Finance Corporation in order that it may carry out its statutory charge; and

BE IT FURTHER RESOLVED, that the Capital Access Committee of the Agricultural Development Board meet with the board of the Kentucky Agricultural Finance Corporation, once that organization has been re-established, for purposes of making a report and recommendations to the Agricultural Development Board as to ways in which the Agricultural Development Board and the Agricultural Development Fund may be utilized to assist the Kentucky Agricultural Finance Corporation in fulfilling its statutory duties.

APPROVED AND ADOPTED BY THE KENTUCKY AGRICULTURAL DEVELOPMENT BOARD ON THIS EIGHTEENTH DAY OF JANUARY 2002.

Sam Lawson moved with a second from Willa Poynter that the board adopt the resolution. The motion passed by voice vote.

Mr. Lawson stated that the Project Review Committees' recommended no funding for the following projects:

Recommendations of No Funding

App # Project Name

Application County

116	Allen County Farm Bureau	Allen
368	First Little Pig Manufacturing	Green
410	Somerset Community College, Somerset Technical College	Pulaski
471	Homegrownveggies	Henry
585	Burley Tobacco Growers	State
784	Danny Redmon	Meade
785	Boyle County Conservation District	Boyle
786	Todd County Cattlemen's Association	Todd
791	PBC Green, LLC	McCracken
793	Crocker Animal Hospital LLP	Simpson
799	Lakeview Farm Riding Stables, LLC	Washington

821	Homegrownveggies	Shelby
824	Lover's Leap Vineyards	Anderson
826	Homegrownveggies	Henry
852	Victoria Stommel	Cumberland
853	Lincoln Trail Farm Business Analysis Group, Inc	Breckinridge
860	Ag Development Initiative Eden Hills	Washington
864	PBC Green, LLC - Duplicate of App #791	McCracken

Sam Lawson moved with a second from Eddie that the board adopt the committees' recommendations. The motion passed by voice vote.

John-Mark Hack introduced Angela Utterback and Stephen Yates as new staff members.

Being no additional business before the board, the meeting adjourned at 2:25PM.